

**ARKANSAS**  
**OIL AND GAS COMMISSION**



**GENERAL**  
**RULES AND REGULATIONS**

**As of August 21, 2009**

## FOREWORD

This publication contains the Commission Rules and Regulation of statewide application. Special rules pertaining to individual oil, gas, or salt water fields and pools are not included but should be consulted.

In using this publication one should be aware that there is a considerable body of statutory law in Arkansas that must be consulted in evaluating an oil and gas matter.

This statutory law is not set out in full herein. The reader should refer to [Arkansas Code, Annotated, Title 15, Chapter 72](#), for the statutory law.

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**ELECTRONIC COPIES OF REQUIRED FORMS**

<http://aogc.state.ar.us/aogcforms.htm>

**GENERAL RULE A – ADMINISTRATIVE**

**RULE A-1 – APPLICATION OF RULES, REGULATIONS, AND ORDERS**

- a) The following General Rules have been adopted by the Oil and Gas Commission in accordance with applicable state law requirements and are General Rules of state-wide application, applying to the conservation and prevention of waste of crude oil and natural gas in the State of Arkansas and protection of the vested, co-equal or correlative rights of owners of crude oil and natural gas.
- b) Any specific provision of an existing rule, regulation or order shall prevail as against a General Rule if in conflict therewith.
- c) After the effective date of this General Rule, no further order, special rule or regulation of the Commission shall be issued to modify, waive, amend, or otherwise alter the provisions of a General Rule unless the General Rule provides a specific provision to do so.

(Source: 1991 rule book; amended May 11, 2008)

**RULE A-2 - GENERAL HEARING PROCEDURES**

- a) Execution and Filing
  - 1) All applications, except for applications filed by the Director, shall be in writing and state the interests of the application and the general nature of the order requested. Fourteen copies of the application, including exhibits, shall be filed with the Commission Director's office located in Little Rock, Arkansas ("Director's Office"). The application shall be deemed filed when it is received by the Director's Office.
  - 2) All fourteen (14) copies of the applications, including exhibits, except for those filed by the Director, must be received in the Directors Office at least twenty (20) days prior to the first day of regularly scheduled hearing. If the applicant or his/her representative files an electronic version (a .pdf file labeled by the assigned docket number) of the application, including exhibits, on an electronic storage device approved by the Director a minimum of twenty (20) days prior to the first day of the regularly scheduled hearing, the fourteen (14) copies of the applications, including exhibits must be received in the Director's office eighteen (18) days prior to the first day of the regularly scheduled hearing.
  - 3) Every application shall be signed by the applicant or his/her representative and his/her address shall be stated thereon. The signature of the applicant or his/her representative constitutes a certificate by him/her that he/she has read the petition and that to the best of his/her knowledge, information and belief there is good ground to support the same.
  - 4) Unless otherwise provided by General Rule of the Commission, each application, except for applications filed by the Director, shall be accompanied by a five hundred dollar (\$500.00) filing fee made payable to the Arkansas Oil and Gas Commission.
  - 5) The applicant shall also submit a check payable to the U.S. Postal Service in an amount approved by the Commission, not to exceed two dollars (\$2.00) per name of persons named in the application, whose address are known as well as addresses for other persons that the applicant seeks to provide a copy of the order. The applicant shall also provide mailing labels for each person named in the application whose address is known, as well

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as any other person that the applicant seeks to provide a copy of the order. If the address of the person is unknown, the Applicant shall provide a statement to that affect. All mailing labels shall be provided within three (3) days after the date of the hearing.

- 6) If after the application is filed, and prior to the hearing date, the Director finds the application deficient relative to the requirements of subsections a) 1) through 4) above, the Director shall return the application to the applicant with a statement as to the deficiencies.
- 7) If after the application is filed, and prior to the hearing date, the Director determines that additional facts, data, records, or other information are necessary to fully evaluate the application, the Director may require the applicant to submit such necessary facts, data, records or other information.

### b) Notice of Hearing

- 1) The Applicant shall prepare a notice of hearing which shall be issued in the name of the Arkansas Oil and Gas Commission. Such notice shall include a statement pertaining to the legal authority for the hearing; the name of the applicant; the legal description of the property or unit; a statement of the requested action; a listing of interested parties; the time, date and location of the hearing; the Commission assigned docket number; and the contact information of the Commission offices. The notice shall also state that any interested person may file an entry of appearance in the hearing by submitting such entry of appearance in writing to the Hearing Officer or Director, and that thereafter such person shall be deemed a party of record in the proceeding.
- 2) Unless otherwise provided by the Brine Act found in Ark. Code Ann. § 15-76-201 *et seq.* or General Rule of the Commission, the Applicant shall serve such notice in the following manner:
  - A) By mailing such notice by U.S. Postal service, first-class mail, directed to all interested parties at their last known addresses at least ten (10) days prior to the date of the hearing, but not more than thirty (30) days prior to the date of the hearing; and
  - B) By publication of such notice for at least one (1) day, with the notice appearing at least ten (10) days prior to the date of the hearing, but not more than thirty (30) days prior to the date of the hearing, in the newspaper of general circulation published in each county containing some portion of the land identified in the application.

### c) Emergency Hearings

In the event an emergency is found to exist by the Commission which in its judgment requires the making, changing, renewal or extension of an order, special rule, or regulation, without first having a hearing, such emergency order shall have the same validity as if a hearing with respect to the same had been held after due notice. The emergency order permitted by this section shall remain in force no longer than ten days, or sixty days in accordance with the Brine Act found in Ark. Code Ann. § 15-76-307, from its effective date, and, in any event, it shall expire when any order made after due notice and hearing with respect to the subject matter of such emergency order becomes effective.

### d) Pre-Hearing Conferences

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- 1) Upon his/her own motion, or the motion of a party of record, the Hearing Officer, as designated by the Commission, may convene a meeting of the parties or their counsel in order to:
    - A) Simplify the factual and legal issues presented by the hearing request;
    - B) Receive stipulations, admissions of fact and the contents and authenticity of documents;
    - C) Exchange lists of witnesses the parties intend to have testify and copies of all documents the parties intend to introduce into evidence at the hearing; and
    - D) Discuss and resolve such other matters as may tend to expedite the disposition of the hearing request and to assure a just conclusion thereof.
  - 2) Pre-hearing conferences may be held by telephone conference if such procedure is acceptable to all parties.
- e) Hearings
- 1) Every hearing shall be held on a date and at a location established by the Commission, and conducted by a Hearing Officer designated by the Commission. The Hearing Officer shall take all necessary actions to avoid delay, to maintain order and to develop a clear and complete record, and shall have all powers necessary and appropriate to conduct a fair hearing and to render a decision on the petition, including but not limited to the following:
    - A) To administer oaths and affirmations;
    - B) To receive relevant evidence;
    - C) To regulate the course of the hearing and the conduct of the parties and their counsel therein;
    - D) To consider and rule upon procedural requests;
    - E) To examine witnesses and direct witnesses to testify, limit the number of times any witness may testify, limit repetitive or cumulative testimony and set reasonable limits on the amount of time each witness may testify; and
    - (F) To require the production of documents or subpoena the appearance of witnesses, either on the Hearing Officer's own motion or for good cause shown on motion of any party of record. The Hearing Officer may require that relevant documents be produced to any party of record on his/her own motion or for good cause shown on motion of any party of record.
  - 2) Every person appearing shall enter his/her appearance by stating his/her name and address. Thereafter, such person shall be deemed a party of record.
  - 3) All participants in the hearing shall have the right to be represented by an attorney licensed to practice law in the State of Arkansas. An attorney appearing in a representative capacity in any proceeding hereunder shall file a written notice of

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appearance identifying his or her name, address and telephone number, and identifying the party represented.

- 4) The Hearing Officer shall allow all parties to present statements, testimony, evidence and argument as may be relevant to the proceeding.
  - 5) The Director, or his/her designee, may appear at any public hearing and shall have the opportunity to question parties or otherwise elicit such information as is necessary to reach a decision on the application.
  - 6) Preliminary Matters: Where applicable, the following shall be addressed prior to receiving evidence:
    - A) The applicant may offer preliminary exhibits, including documents necessary to present the issues to be heard, notices, proof of publication and orders previously entered in the cause.
    - B) Rulings may be made by the Hearing Officer on any pending motions.
    - C) Any other preliminary matters appropriate for disposition prior to presentation of evidence.
- f) Evidence
- 1) Admissibility: A party shall be entitled to present his/her case by oral or documentary evidence, to submit rebuttal evidence, and to conduct such cross-examination as may be required for a full and true disclosure of the facts. Any oral or documentary evidence may be received, but the presiding Hearing Officer shall exclude evidence which is irrelevant, immaterial or unduly prejudicial or repetitious. The rules of evidence applied in civil cases in the courts of the State of Arkansas shall be followed in accordance with Ark. Code Ann. §§15-71 -106 and 15-71-111. However, the erroneous ruling on the admissibility of evidence shall not of itself invalidate any rule, regulation or order.
  - 2) Official Notice: Official notice may be taken of any material fact not appearing in evidence in the record if the circuit courts of this State could take judicial notice of such fact. In addition, notice may be taken of generally recognized technical or scientific facts within the Commission's specialized knowledge.
  - 3) Order of Proof: The applicant shall open the proof. Other parties of record shall be heard immediately following the petitioner. The Hearing Officer or Director or his/her designee, as well as any Commissioner may examine any witnesses. In all cases, the Hearing Officer shall designate the order of proof and may limit the scope of examination or cross-examination.
  - 4) Briefs: The Hearing Officer may require or allow parties to submit written briefs to the Hearing Officer within 10 days after the close of the hearing or within such other time as the Hearing Officer shall determine as being consistent with the Commission's responsibility for an expeditious decision.
- g) Recording of Proceedings; Testimony

The Commission shall provide a certified court reporter to take down the testimony and preserve a record of all proceedings at the hearing. Any person testifying shall be required to do so under

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oath. However, relevant unsworn statements, comments and observations by any interested person may be heard and considered by the Commission as such and included in the record.

### h) Postponement or Continuance of Hearing

Any hearing may be postponed or continued for due cause by the Hearing Officer upon his/her own motion or upon the motion of a party to the hearing. A motion filed by a party to the hearing shall set forth facts attesting that the request for continuance is not solely for the purpose of delay. All parties involved in a hearing shall avoid undue delay caused by repetitive postponements or continuances so that the subject matter of the hearing may be resolved expeditiously. The Applicant may postpone or continue the hearing of an application for three consecutive regularly scheduled Commission meetings without prior approval of the Hearing Officer. After the third consecutive postponement, the application shall be dismissed, unless the Hearing Officer allows an exception for due cause, and the applicant shall be required to re-file in accordance with applicable General Rules in order for an application to be scheduled for a hearing.

### i) Default

If a party, after proper service of notice, fails to appear at the pre-hearing conference or at a hearing, and if no continuance is granted, the Commission may then proceed to make its decision in the absence of such party. If the failure to appear at such pre-hearing conference or hearing is due to an emergency situation beyond the parties' control, and the Commission is notified of such situation on or before the scheduled pre-hearing conference or hearing, the Hearing Officer may continue or post-pone the pre-hearing conference or hearing. Emergency situations include sudden unavailability of counsel, sudden illness of a party or his representative, or similar situations beyond the parties' control.

### j) Voting

- 1) In order for the Commission to adopt a motion approving an application as applied for, or as amended by either the applicant or a Commissioner, there must be:
  - A) A quorum present;
  - B) A majority of the votes cast must be in favor of the motion outlining the proposed order; and
  - C) At least five (5) votes cast must be in favor of the motion outlining the proposed order.
- 2) If a motion approving the application as applied for, or as modified by either the applicant or a Commissioner does not receive the votes required in subparagraphs i) A) through C) above, and no subsequent or substitute motion receives the votes required in subparagraphs i) A) through C) above, then the application shall be deemed to be denied by the Commission.
- 3) If an application is deemed to be denied by the Commission in accordance with subparagraph i) 2) above, the Commission shall enter an order of denial, which may be appealed as a final decision under the Arkansas Administrative Procedures Act found in Ark. Code Ann. § 25-15-201 *et. seq.*
- 4) Nothing in this subparagraph shall limit the Commission's authority to continue any application for due cause.

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k) Commission's Order--Final Administrative Decision

Within 30 days of the close of the hearing record, the Commission shall issue findings of fact, conclusions of law and final administrative decision of the Commission signed by the Director. The Commission shall have continuing jurisdiction for the purposes of enforcement, and/or modifications or amendments to the provisions of all orders. Any appeals shall be governed by the Administrative Procedures Act found in Ark. Code Ann. § 25-15-201 *et. seq.*

l) Notice of Order--Recordation

Within 30 days after an order has been issued, a copy of such order shall be mailed by the Commission to each interested party at his/her last known address or his/her attorney of record, and filed in accordance with the Administrative Procedures Act found in Ark. Code Ann. § 25-15-201 *et. seq.*

m) Official Record

In every case of adjudication, the official record shall be compiled in accordance with the Administrative Procedures Act found in Ark. Code Ann. § 25-15-201 *et. seq.*

(Source: 1991 rule book; amended April 13, 2008, amended June 5, 2009)

### **RULE A-3 - ADDITIONAL REQUIREMENTS FOR SPECIFIC TYPES OF HEARINGS**

a) Abandoned Well and Emergency Response Hearings

- 1) Unless otherwise specified below, General Rule A-2 shall apply to all abandoned well and emergency response hearing proceedings pursuant to Ark. Code Ann. § 15-72-217.
- 2) The Director shall only provide notice to the permit holder named in the application, in accordance with General Rule A-2 (b) (2).
- 3) The Director shall have the burden of proof at the hearing. A decision shall be supported by a substantial evidence standard.

b) Integration Hearings

- 1) Unless otherwise specified below, General Rule A-2 shall apply to all drilling unit integration proceedings.
- 2) Commencement of Action

Where the oil or gas rights within a drilling unit are separately owned and the owners of those rights have not voluntarily agreed to integrate or pool those rights to develop the oil or gas, an owner may petition the Commission for an order integrating those rights, pursuant to Ark. Code Ann. § 15-72-302 and §15-72-303. The application for an order integrating interests shall contain the following:

- A) The name and address of the applicant;
- B) The applicant's reasons for desiring to integrate the separately owned interests;

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- C) A legal land description of the drilling unit sought to be established;
- D) A geologic report of the area where the proposed drilling unit is to be located indicating the potential presence of reservoirs;
- E) If the application is for the integration of an exploratory drilling unit, as contemplated by Ark. Code Ann. § 17-72-302:
  - i) the names of all owners named in the application who have not agreed to integrate their interests in the right to drill and produce oil or gas, or both, in the proposed drilling unit as of the date of filing the petition, as disclosed by the records in the office of the clerk for the county or counties in which the drilling unit is situated, and;
  - ii) a statement that the persons who own at least an undivided fifty percent (50%) interest in the right to drill and produce oil or gas or both, from the total proposed unit agree thereto at the time of the filing of the application;
- F) If the application is for the integration of an established drilling unit, as contemplated by Ark. Code Ann. § 17-72-303, and created in accordance with applicable Commission Orders or General Rules; the names of all owners named in the application who have not agreed to integrate their interests in the right to drill and produce oil or gas, or both, in the proposed drilling unit as of the date of filing the petition, as disclosed by the records in the office of the clerk for the county or counties in which the drilling unit is situated;
- G) Unleased mineral owners.
  - i) A resume or efforts showing that the applicant has exercised due diligence, to locate each unleased mineral owner, and that a bona fide effort was made to reach an agreement with each owner as to how the unit would be developed, as follows:
    - aa) Due diligence, regarding non-industry owners (persons who are not actively involved in the oil and gas business) means, except for good cause shown, to be determined at the discretion of the Commission, that the Applicant attempted to contact said owners and that bona fide efforts to reach an agreement commenced at least sixty (60) days prior to the date of the hearing; and that there are sufficient contacts to show that the Applicant has exhausted all reasonable efforts to reach an agreement. However, the Applicant shall not be required to contact an owner that the Applicant is precluded by law from contacting, or an owner who has expressly stated that the Applicant is not to contact said owner.
    - bb) Due diligence, regarding industry owners (person who as an active business practice are involved in the oil and gas business) means that the Applicant has provided industry owners notice, including an Authorization for Expenditure (“AFE”) and Well Proposal, prior to filing the integration application.

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- ii) An affidavit indicating what the highest and/or best cash bonus and royalty terms that the Applicant has knowledge of that have been offered and accepted, or contracted for, for any acreage within the unit(s) where the well is located (as defined in Section (a)(2) of General Rule B-3), including any acreage within the unit(s) subject to leases or other agreements with a fee mineral owner covering lands located in more than one unit. If this information changes prior to the hearing, the Applicant shall inform the Commission of any changes. If no affidavit is provided prior to or at the time of the hearing, the Applicant shall provide sworn testimony as to the highest and/or best cash bonus and royalty terms that the Applicant has knowledge of that have been offered and accepted, or contracted for, for any acreage within the unit(s) where the well is located (as defined in Section (a)(2) of General Rule B-3), including any acreage within the unit(s) subject to leases or other agreements with a fee mineral owner covering lands located in more than one unit.
  
  - H) Uncommitted Leasehold Working Interest Owners.

A resume of efforts showing that the applicant has exercised due diligence, to locate each uncommitted leasehold working interest owner and that a bona fide effort, was made to reach an agreement with each owner as to how the unit would be developed, by providing the uncommitted leasehold working interest owners notice, including an AFE and Well Proposal, prior to filing the integration application.
  
  - I) Any other information relevant to protect correlative rights of the parties sought to be affected by the order.
- c) Appeal of Director's Decision.
- 1) Any interested party may appeal a permit denial, any enforcement action, or rule interpretation decision made by the Director to the Commission.
  - 2) Unless otherwise specified below, General Rule A-2 shall apply to all hearings requested to appeal a decision of the Director.
  - 3) The application to appeal a Director's decision shall be accompanied by a two hundred and fifty dollar (\$250.00) filing fee.
- d) Exceptional Well Location
- 1) Unless otherwise specified below, General Rule A-2 shall apply to all hearings for an application which has been referred to the Commission in accordance with General Rule B-40, or for which General Rule B-40 is not applicable.
  - 2) The application shall include proof of notice to each owner within the unit in which the well is located and within the units offsetting the boundary line or lines, or in the case of wells in uncontrolled fields within the boundaries of mineral lease lines and the offsetting lease(s), which shall be encroached upon by the exceptional well location.
  - 3) If the application has been referred to the Commission in accordance with General Rule B-40, no application fee is required to be submitted with the application.

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- e) Authority to Commingle and Additional Completions
- 1) Unless otherwise specified below, General Rule A-2 shall apply to all hearings for which the applicant has requested a hearing for an application which has been denied in accordance with General Rule D-18 or General Rule D-19, or for which General Rules D-18 or D-19 are not applicable.
  - 2) If the applicant requests the hearing in accordance with General Rule D-18, the application shall include proof of notice to all offset operators in all adjacent units.
  - 3) If the applicant requests the hearing in accordance with General Rule D-19, the application shall include proof of notice to all working interest owners in the subject unit and all offset operators in all adjacent established units including all working interest owners in the offset unit where the operator is the same as the applicant.
- f) Establishment of Field Rules
- 1) Unless otherwise specified below, General Rule A-2 shall apply to all hearings for the creation of field rules, as provided by General Rule B-38.
  - 2) The application shall include proof of notice to each owner, as defined in Ark. Code Ann. § 15-72-102 (9), within the proposed unit(s) in which the well(s) is/are located and within all units offsetting the boundary line or lines of the proposed unit(s).
  - 3) The application shall include a geologic report of the proposed field, specifying the geologic setting of the proposed field and including at a minimum a completion report of the discovery and other wells located within the proposed field, a type geophysical log from a well(s) in the proposed field and a structure and isopach map of the productive zone(s) within the proposed field.

(Source: 1991 rule book; amended April 13, 2008; amended December 14, 2008; amended July 17, 2009)

### **RULE A-4 - DEFINITIONS**

Unless the context otherwise requires, the words defined shall have the following meaning when found in these rules, to-wit:

**ATMOSPHERIC PRESSURE** -- shall mean the pressure of air at the sea level, equivalent to about 14.7 pounds to the square inch.

**BALANCE** -- (Gas) shall mean an instrument used for determining the specific gravity of gases by weighing methods.

**BAROMETRIC PRESSURE** -- shall mean the pressure or weight of air determined by the use of a barometer at a given point.

**“BARREL” or “BARREL OF OIL”** -- shall mean 42 United States gallons of oil at a test of 60 degrees Fahrenheit, with deductions for the full percent of basic sediment, water and other impurities present, ascertained by centrifugal or other recognized and customary test.

**BLOW-OUT** -- shall mean a sudden or violent escape of crude oil or natural gas, as from a drilling well, when high formation pressure is encountered.

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**BLOW-OUT PREVENTER** -- shall mean a heavy casing head control filled with special gates or discs which may be closed around the drill pipe, or which completely closes the top of the casing if the pipe is withdrawn.

**BOTTOM HOLE PRESSURE** -- shall mean the pressure in pounds per square inch at or near the bottom of an oil or gas well determined at the face of the producing horizon by means of a pressure recovery instrument, adopted and recognized by the oil and gas industry, which can be lowered into the bore of the well. In the case of gas wells or wells having no fluid in the well bore, it shall mean the pressure as calculated by adding the pressure at the surface of the ground to the calculated weight of the column of gas from the surface to the bottom of the hole.

**CASING PRESSURE** -- shall mean the pressure built up between the casing and tubing when the casing and tubing are packed off at the top of the well.

**CASINGHEAD GAS** -- shall mean any gas or vapor, or both gas, and vapor, indigenous to an oil stratum and produced from such stratum with oil.

**CHRISTMAS TREE** -- shall mean an assembly of valves and fittings at the head of the casing of a well to control the flow. Also spoken of as "well head connections."

**CIRCULATION** -- shall mean the passing of an approved fluid down through the drill stem and up to the surface in the process of rotary drilling in setting casing.

**COMBINATION WELL** -- shall mean a well productive of both oil and gas in commercial quantities from the same common source of supply and which has sufficient natural gas pressure to cause the gas to enter a pipe line carrying more than atmospheric pressure.

**COMMISSION** -- shall mean the Arkansas Oil and Gas Commission.

**COMMON SOURCE OF SUPPLY** -- shall mean the geographical area or horizon definitely separated from any other such area or horizon and which contains, or from competent evidence appears to contain, a common accumulation of oil or gas or both. Any oil or gas field or part thereof which comprises and includes any area which is underlaid, or which from geological or other scientific data or experiments or from drilling operations or other evidence appears to be underlaid by a common pool or accumulation of oil or gas or both oil and gas.

**CONDENSATE** -- shall mean the liquid produced by the condensation of a vapor or gas either after it leaves the reservoir or while still in the reservoir. Condensate is often called Distillate, Drips, White Oil, Etc.

**CONNATE WATER** -- shall mean water which was deposited with the deposition of solid sediments in an oil or gas reservoir and which has not, since its deposition, existed as surface water at atmospheric pressure.

**CONSERVATION** -- shall mean the conserving, preserving, guarding or protecting the oil and gas resources of the state by obtaining the maximum efficiency with minimum waste in the production, transportation, processing, refining, treating and marketing of the unrenewable oil and gas resources of the state.

**CONTROLLED OIL FIELD** -- shall mean any common source of supply of crude oil discovered after January 1, 1937, or any field discovered prior to January 1, 1937, provided any pool therein has been discovered after January 1, 1937.

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**CONTROLLED GAS FIELD** -- shall mean any common source of supply of natural gas discovered after January 1, 1937, or any field discovered prior to January 1, 1937, provided any pool therein has been discovered after January 1, 1937.

**CONTROLLED PRODUCTION** -- shall mean the production of oil or gas or both oil and gas from a controlled oil or gas field.

**CORE HOLE** -- shall mean a hole drilled below the fresh water level for obtaining geological and structural information without penetrating a known producing formation in the area.

**CRUDE OIL** -- shall mean petroleum oil, and other hydrocarbons, regardless of gravity, which are produced at the well in liquid form by ordinary production methods, and which are not the result of condensation of gas before or after it leaves the reservoir.

**CUBIC FOOT OF GAS** -- shall mean the volume of gas contained in one cubic foot of space at the standard pressure base and the standard temperature base. The standard pressure base shall be 14.65 pounds per square inch absolute and the standard temperature base shall be 60° Fahrenheit.

**DAY** -- shall mean a period of twenty-four (24) consecutive hours from 7:00 a.m. one day to 7:00 a.m. the following day.

**DEVELOPMENT** -- shall mean any work which actively looks toward bringing in production, such as erecting rigs, building tankage, drilling wells, etc.

**DIFFERENTIAL PRESSURE** -- shall mean the difference between the tubing pressure and the flow-line pressure; the drop flow-line pressure; the drop in pressure of the fluid in passing through the flow-nipple or choke; in the case of an orifice meter, the difference of the pressures on the up-stream and the down-stream sides of the orifice; a pressure measured with a differential gauge or with a manometer (U-tube); any difference in pressure.

**DISTILLATE** -- shall mean a product of distillation of the fluid condensed from the vapor driven off in the still, such as gasoline, naphtha, kerosene, and light lubrication oils, the result of distillation of crude oil. Condensate is commonly referred to as distillate.

**DIVISION ORDER** -- shall mean a written statement, dated, duly signed by the owners and delivered to the purchaser, certifying and guaranteeing the interests of ownership of the production and directing payments according to those interests.

**DRY GAS** -- shall mean natural gas obtained from sands that produce gas only; or natural gas obtained which does not contain the heavier fractions which may easily condense under normal atmospheric conditions; not casinghead gas.

**EDGE WATER** -- shall mean water that holds the oil or gas, or both oil and gas, in higher structural position, usually encroaching on a pool as the oil or gas is removed.

**FIELD** -- shall mean the general area which is underlaid or appears to be underlaid by at least one pool; and "field" shall include the underground reservoir or reservoirs containing crude petroleum oil or natural gas, or both. The words "field" and "pool" mean the same thing when only one underground reservoir is involved; however, "field" unlike "pool," may relate to two or more pools.

**FLOWING WELL** -- shall mean a well from which oil or gas flows naturally without pumping or other means of artificial lift.

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**GAS** -- shall mean the natural gas obtained from gas or combination wells regardless of its chemical analysis.

**GAS ALLOWABLE** -- shall mean the amount of natural gas authorized to be produced by order of the Commission.

**GAS ASSESSMENT** -- shall mean the assessment on each thousand cubic feet of gas produced from a gas well to pay the costs incident to the administration of the rules of the Commission.

**GAS REPRESSURING** -- shall mean the introduction of gas or air into a common source of supply by artificial means in order to replenish, replace, or increase the gas energy causing the oil to flow out of the reservoir.

**GAS-SOUR** -- shall mean gas which contains hydrogen sulfide in sufficient quantities to render it unfit for domestic or commercial use.

**GAS-WELL** -- shall mean (1) a well which produces natural gas only; (2) any well capable of producing gas in commercial quantities and also producing oil from the same common source of supply but not in commercial quantities; or (3) any well classed as a gas well by the Commission for any reason; (4) a well that contains no liquid hydrocarbons in the reservoir.

**GAS-LIFT** -- shall mean a method of injecting gas for lifting a liquid from the well to the surface.

**GAS-OIL RATIO** -- shall mean the number of cubic feet of gas at atmospheric pressure, as produced from an oil well or combination well, divided by the number of barrels (42 gallons) of oil, the unit of time being a day of 24 hours.

**ILLEGAL OIL** -- shall mean oil which has been produced within the State of Arkansas from any well during any time that well has produced in excess of the amount allowed by any rule, regulation or order of the Commission, as distinguished from oil produced within the State of Arkansas from a well not producing in excess of the amount so allowed, which is "legal oil."

**ILLEGAL GAS** -- shall mean gas which has been produced within the State of Arkansas from any well during any time that well has produced in excess of the amount allowed by any rule, regulation or order of the Commission, as distinguished from gas produced within the State of Arkansas from a well not producing in excess of the amount so allowed, which is "legal gas."

**ILLEGAL PRODUCT** -- shall mean any product of oil or gas, any part of which was processed or derived, in whole or in part, from illegal oil or illegal gas or from any product thereof as distinguished from "legal product," which is a product possessed or derived to no extent from illegal oil or illegal gas.

**INDICES OF PRODUCTIVE VALUE** -- shall mean the factors to be considered in ascertaining the productivity of all property in a common source of supply for the purpose of fixing the allowable production. These indices can mean, at the discretion of the Commission, acreage, gas oil ratios, static reservoir pressures, flowing pressures, fluid level drawdowns, the well or wells, or any other pertinent factors.

**LEASE TANK** -- shall mean the tank or other receptacle into which oil is produced either directly from a well or from a well through gas separator, gun barrel or similar equipment.

**METER** -- shall mean an instrument for measuring and recording the volume of gases or liquids.

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**MONTH and CALENDAR MONTH** -- shall mean the period or interval of time from 7 a.m. on the first day of any month of the calendar to 7 a.m., of the first day of the next succeeding month of the calendar.

**MUD-LADEN FLUID** -- shall mean any approved mixture of water and clay or other material as the term is commonly used in the industry.

**NATURAL GASOLINE** -- shall mean gasoline manufactured from casinghead gas or from any natural gas.

**OIL** -- shall mean crude oil or petroleum.

**OIL ALLOWABLE** -- shall mean the amount of oil authorized to be produced by the order of the Commission.

**OIL ASSESSMENT** -- shall mean the assessment on each barrel of oil produced, from any field or reservoir, to pay the costs incident to the administration of the rules of the Commission.

**OIL-PIPELINE** -- shall mean oil free from water and basic sediment to the degree that it is acceptable for pipe line transportation and refinery use.

**OIL-WELL** -- shall mean any well capable of producing oil in paying quantities not a gas well.

**OPERATOR** -- shall mean any person who, duly authorized, is in charge of the development of a lease or the operation of a producing well.

**OVERAGE, OVER-PRODUCTION** -- shall mean the oil or gas produced in excess of the allowable as set by the Commission.

**OWNER** -- shall mean the person who was the right to drill into and produce from any field or reservoir, and to appropriate the production either for himself or for himself and another.

**PERIOD, ALLOWABLE** -- shall mean the month or day, as designated, in which allowable may be produced.

**PERMEABILITY** -- shall mean a measure, determined by scientific means, of the ability of fluid or gas to traverse the producing horizon in an oil or gas reservoir.

**PERSON** -- shall mean any natural person, corporation, association, partnership, receiver, trustee, guardian, executor, administrator, Federal agency, or representative of any kind.

**PETROLEUM** -- shall mean the natural untreated oil obtained from an oil well.

**PIPE LINE** -- shall mean any pipes above or below the ground used or to be used for the transportation of oil or gas.

**PIPE LINE OIL** -- see, Oil, Pipeline.

**PLUG** -- shall mean the abandoning of a producing or non-productive well; the stopping of the flow of water, gas or oil in a well.

**POOL** -- shall mean an underground reservoir containing a common accumulation of crude petroleum oil or natural gas or both. Each zone of a general structure which is completely separated from any other zone in the structure is covered by the term "Pool" as used herein.

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**POROSITY** -- shall mean the state or quality of being porous; the volume of pore space expressed as a percentage of the total volume of the rock mass; the percentage or pores of interspaces forming the total bulk of the material.

**POTENTIAL** -- shall mean the actual or properly computed daily ability of a well to produce oil or gas, either or both, as determined by the rules and regulations of the Commission.

**PRESSURE BASE** -- shall mean an absolute pressure agreed upon or set as a base for converting the volume of gas metered to correct volume. The standard pressure base shall be 14.65 pounds per square inch absolute.

**PRESSURE MAINTENANCE** -- (1) shall mean the reintroduction (in the early stages of field development) of gas or fluid produced from an oil, gas or combination well to maintain the pressure of the reservoir. (2) The introduction of gas or fluid for the same purpose but obtained from an outside source.

**PRODUCER** -- shall mean any person who owns, in whole or in part, a well capable of producing oil or gas or both in paying quantities.

**PRODUCT** -- means any commodity made from oil or gas, and shall include refined crude oil, crude tops, topped crude, processed crude petroleum, residue from crude petroleum, cracking stock, uncracked fuel oil, fuel oil, treated crude oil, residuum, gas oil, casinghead gasoline, natural gas, gasoline, naphtha, distillate, gasoline, kerosene, benzine, wash oil, waste oil, blended gasoline, lubricating oil, blends or mixture of oil with one or more liquid products or by-products derived from oil or gas, whether herein above enumerated or not.

**PRODUCTION, ILLEGAL**, -- see Illegal Gas, Illegal Oil.

**PRODUCTION INTERESTS** -- shall mean the right to a specified part of production.

**PROVEN OIL OR GAS LAND** -- shall mean that area which has been shown by development and geological information to be such that additional wells drilled thereon are reasonably certain to be commercially productive of oil or gas or both.

**PURCHASER** -- shall mean any person who directly or indirectly purchases, transports, takes or otherwise removes production to his account from a well or lease. Purchaser is usually considered to be the person holding the Division Order.

**RATABLE TAKE** -- see Controlled Production.

**RECOMPLETION** -- shall mean completion operations performed in a source of supply that is separate and distinct from the source of supply in which the well was successfully completed prior to the commencement of the current completion operations.

**REFINER** -- shall mean every person who has any part in the control or management of any operation by which the physical or chemical characteristics of oil or products are changed, but exclusive of the operations of passing oil through separators to remove gas, placing oil in settling tanks to remove basic sediment and water, dehydrating oil, and generally cleaning and purifying oil.

**REPRESSURE** -- shall mean to increase the reservoir pressure by the introduction of gas or fluid into the reservoir.

**RESERVOIR PRESSURE** -- see Bottom Hole Pressure.

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**ROCK PRESSURE** -- shall mean the well head pressure on a gas well that has been closed long enough to attain a maximum.

**ROTARY DRILLING** -- shall mean the hydraulic process of drilling, consisting of rotating a column of drill pipe to the bottom of which is attached a rotary drilling bit.

**RUN** -- shall mean oil or gas removed from the lease.

**SEPARATOR** -- shall mean an apparatus for separating gas from oil with relative efficiency, as it is produced.

**SHUT-IN PRESSURE** -- shall mean the pressure noted at the wellhead when the well is completely shut in. Not to be confused with Bottom Hole Pressure

**SPODDING** -- shall mean the initial step in drilling.

**STORER** -- shall mean every person as herein defined who stores, terminals, retains in custody under warehouse or storage agreements or contracts, oil which comes to rest in his tank or other receptacle under control of said storer, but excluding the ordinary lease stock of producers.

**TAKER** -- see Purchaser.

**TENDER** -- shall mean a permit or certificate of clearance for the transportation of oil, gas, or products, approved and issued or registered under the authority of the Commission.

**TENDERSHIP** -- shall mean the production delivered from one person to another.

**TOPPING PLANT** -- shall mean a refinery designed to remove only the gasoline and kerosene fractions from oil.

**TRAP PRESSURE** -- shall mean pressure held at the oil and gas separator.

**TRANSPORTER** -- shall mean and include any common carrier by pipe line, barge, boat or other water conveyance, or truck or other conveyance except railroads, and any person transporting oil by pipeline, barge, boat or other water conveyance, or truck and other conveyance.

**TUBING** -- shall mean the conduit through which oil or gas is removed from a well.

**VACUUM** -- shall mean pressure which is reduced below the pressure of the atmosphere.

**VOLATILE** -- shall mean easily wasting away by evaporation.

**WASTE** -- in addition to its ordinary meaning, shall mean "physical waste" as that term is generally understood in the oil and gas industry. It shall include:

- (1) The inefficient, excessive or improper use or dissipation of reservoir energy; and the locating, spacing, drilling, equipping, operating or producing of any oil or gas well or wells in a manner which results, or tends to result, in reducing the quantity of oil or gas ultimately to be recovered from any pool in this state.
- (2) The inefficient storing of oil; and the locating, spacing, drilling, equipping, operating or producing of any oil or gas well or wells in a manner causing, or tending to cause, unnecessary or excessive surface loss or destruction of oil or gas.

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- (3) Abuse of the correlative rights and opportunities of each owner of oil and gas in a common reservoir due to non-uniform, disproportionate, and unratable withdrawals causing undue drainage between tracts of land.
- (4) Producing oil or gas in such manner as to cause unnecessary water channeling or coning.
- (5) The operation of any oil well or wells with an inefficient gas-oil ratio.
- (6) The drowning with water of any stratum or part thereof capable of producing oil or gas.
- (7) Underground waste however caused and whether or not defined.
- (8) The creation of unnecessary fire hazards.
- (9) The escape into the open air from a well producing both oil and gas, of gas in excess of the amount which is necessary in the efficient drilling or operation of the well.
- (10) The use of gas for the manufacture of carbon black.
- (11) Permitting gas produced from a gas well to escape into the air.

**WATER CONE** -- shall mean the creation of irregularly intruding water by allowing a well to produce too rapidly.

**WELL LOG** -- shall mean an electrical, or any other type of survey, made for the purpose of ascertaining the strata through which a well bore has penetrated.

**WILDCAT WELL** -- shall mean a well drilled outside the geological confines of proven production.

**WORKOVER** -- shall mean work of a remedial nature performed within the vertical confines of the same source of supply.

(Source: 1991 rule book)

### **RULE A-5 - ENFORCEMENT PROCEDURES**

a) Definitions:

- 1) “Commission” shall mean the full Arkansas Oil and Gas Commission, consisting of nine members, on which the Director serves as secretary, but is a non-voting member.
- 2) “Director” shall mean the Commission Director of Production and Conservation.
- 3) “Regulated Entity” shall mean all operators, owners, producers or persons subject to Commission regulatory authority in accordance with Ark. Code Ann. § 15-71-110 or § 15-76-302.
- 4) “UIC” shall mean the Underground Injection Control program of the Federal Safe Drinking Water Act.

b) Any regulated entity engaged in the drilling, operation or plugging of any production, injection, or other well or drill hole regulated by the Commission; or the operation of any crude oil or gas production or injection facility; or the operation of any natural gas line or crude oil flowline regulated by the Commission; or transporter by tank truck of any oilfield production or

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completion fluid; or seismic activity; or any other activity regulated by the Commission, is subject to this rule for violation of any oil, gas and/or brine statutes, or any rule, regulation, order, or permit condition of the Commission.

- c) In accordance with Ark. Code Ann. § 15-72-103(c) or § 15-76-303(c), any person knowingly and willfully aiding or abetting any other person in the violation of any statute relating to the conservation of oil, gas and/or brine, or the violation of any provision of the state oil, gas and/or brine statutes, or any rule, regulation, order, or permit condition, shall be subject to the same penalties as are prescribed herein for the regulated entity.
- d) Notice of Non-Compliance
  - 1) A Notice of Non-Compliance may be issued, prior to the issuance of a Notice of Violation as specified in subparagraph (e) below, when any regulated entity is in non-compliance with any requirement of the Arkansas oil, gas and/or brine statutes, or rules, regulations, orders, or any permit condition, and:
    - A) That the non-compliance was not caused by the regulated entity's deliberate action;
    - B) That any action necessary to abate the non-compliance was commenced immediately and was or will be completed within a specified date certain, as established by the Director, or his or her designee, not to exceed thirty (30) days from the date of the determination that the regulated entity was determined to be in non-compliance; and
    - C) That the non-compliance has not caused and cannot reasonably be expected to cause significant environmental harm or damage to property.
  - 2) The notice of non-compliance shall be documented in writing and, delivered via first class mail to the regulated entity or to the regulated entity's representative as reported on the AOGC Form 1 Organization Report. The written notification shall indicate the nature and circumstances of the non-compliance, and the time within which and the means by which the non-compliance is to be abated.
  - 3) If abatement was not completed as specified in the written notification, the Director, or his or her designee, may issue a formal Notice of Violation in accordance with subparagraph (e) below.
  - 4) The provisions of this subparagraph (d), shall not apply to the following types of incidents, which require a Notice of Violation to be issued in accordance with subparagraph (e) below:
    - A) Commencing any regulated activity specified in paragraph (b) above prior to issuance of the appropriate Commission permit;
    - B) Operating an annular or casing injection/disposal well or a well with pressure on the annulus;
    - C) Failure to maintain required performance bond or pay annual well fees;
    - D) Failure to establish mechanical integrity on any UIC well prior to operation, or failure to repair any UIC well following failure of mechanical integrity;

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- E) Commencing any work or activity on a well or its related production facility or well site that has been placed in the Abandoned and Orphan Well Plugging Program;
  - F) Failure to provide emergency response for a crude oil or saltwater spill;
  - G) Improper discharge or disposal of produced fluids; or
  - H) Operating a well in violation of spacing requirements or permit conditions.
- e) Notice of Violation(s)
- 1) A Notice of Violation may be issued, by the Director or his or her designee, when any regulated entity is in violation of any requirements of the Arkansas oil, gas, and/or brine statutes, or rules, regulations, orders, or any permit conditions of the Commission. A regulated entity shall not be held responsible by the Commission for violations of oil, gas and/or brine statutes, or rules, regulations, orders or permit conditions of the Commission in the absence of the issuance of an underlying Notice of Violation.
  - 2) The Notice of Violation shall be in writing and contain:
    - A) A statement regarding the nature of the violation, including a citation to the specific section of the oil, gas and/or brine statutes, or any rule, regulation, order or permit condition of the Commission alleged to have been violated;
    - B) The suggested action needed to abate the violation including any appropriate remedial measures to prevent future violations;
    - C) The time within which the violation should be abated; and
    - D) A notice of any civil penalties, as specified in subparagraph g) below, the Director will request to be issued by the Commission.
    - E) A notice of any civil penalties for violations of natural gas line regulations under United States Department of Transportation, Office of Pipeline Safety jurisdiction in accordance with appropriate federal regulation specified in 49 CFR 190.223, the Director will request to be issued by the Commission.
  - 3) The Notice of Violation may include a well, lease, or unit cessation requirement for the following types of violations:
    - A) Violation of production allowable;
    - B) Failure to maintain required well specific performance bond;
    - C) Drilling or operating, without a Commission permit or permit transfer, a well required to be permitted or transferred;
    - D) Operating a well that has been determined to be abandoned by the Commission;
    - E) Failure to plug a leaking well or a well ordered to be plugged by the Commission;

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- F) Operating an annular or casing injection/disposal well;
  - G) Operating a UIC Class II or V well with a failed mechanical integrity test;
  - H) Operating a UIC Class II or V well with pressure on the annulus indicating tubing and/or casing failure;
  - I) Failure to provide emergency response or remediate a crude oil or produced water spill; or
  - J) Improper disposal or discharge of produced fluids;
- 4) The Notice of Violation may also include a state-wide cessation requirement for the following types of violations:
- A) Failure to maintain required blanket financial assurance as specified in General Rule B-2;
  - B) Failure to pay annual well fees as specified in General Rule B-2; or
  - C) Failure to pay any monies due the Abandoned and Orphaned Well Plugging Fund as specified in General Rule G-1;
- 5) The Director, or his or her designee, shall send via certified mail the Notice of Violation to the regulated entity, or the regulated entity's representative as reported on the AOGC Form 1 Organization Report, charged with the violation(s), or provide personal delivery of a copy of the notice to the regulated entity, or the regulated entity's representative.
- 6) The regulated entity charged with the violation(s) may request a Director's Review of the Notice of Violation and provide the Director, in writing, any information in mitigation of the violation(s) on or before thirty (30) calendar days of the mailing or personal delivery of the original Notice of Violation, unless a shorter time period is specified in the Notice of Violation for instances where there is a condition that creates an imminent danger to the health or safety of the public or threatens significant environmental harm or damage to the property. Such written information may include a proposed alternative to the required action needed to abate the violation(s). Upon receipt of such information from the regulated entity, the Director, shall conduct a review.
- 7) During the review, the Director may consider any of the following criteria in reaching a Final Director's Decision regarding the violation(s):
- A) The regulated entity's history of previous violations, including violations at other locations and under other permits;
  - B) The seriousness of the violation, including any irreparable harm to the environment or damage to property;
  - C) The degree of culpability of the regulated entity; and
  - D) The existence of any additional conditions or factors in aggravation or mitigation of the violation, including information provided by the regulated entity.

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- 8) Upon completion of the review, the Director shall issue a Final Director's Decision to:
    - A) affirm the violation; or
    - B) vacate the violation; or
    - C) amend or modify the type of violation and abatement requirements specified in the violation; or
    - D) establish probationary or permanent modification or conditions to any underlying permit related to the violation, which may include special monitoring or reporting requirements; or
    - E) enter into a settlement agreement to extend the amount of time provided to complete remedial actions necessary to abate the violations or reduce the amount of the requested assessed civil penalty.
  - 9) The Final Director's Decision shall be delivered to the regulated entity, or the regulated entity's representative, as reported on the AOGC Form 1 Organization Report, via first class mail. The Final Director's Decision may be appealed to the Commission by filing an application in accordance with General Rule A-2, A-3, and other applicable hearing procedures. The application to appeal the Final Director's Decision is required to be received by the Director within thirty (30) days of the mailing of the Final Director's Decision. The application shall state the reason for the appeal and shall be scheduled to be heard by the Commission in accordance with General Rule A-2, A-3, and other applicable hearing procedures.
  - 10) A Notice of Violation for which a Director's Review has not been requested, shall become a final administrative decision of the Commission thirty (30) days following the mailing of the Notice of Violation.
  - 11) A Final Director's Decision not appealed to the Commission within thirty (30) days of mailing of the Final Director's Decision shall become a final administrative decision of the Commission.
  - 12) All violations specified in a Notice of Violation(s) which have become a final administrative decision in accordance with subparagraph e) 10), a Final Director's Decision which has become a final administrative decision of the Commission in accordance with subparagraph e) 11), or by Order of the Commission, shall be fully abated within the time frame specified in the original Notice of Violation, Final Director's Decision, or Order of the Commission. No further permits or authorities shall be issued to the regulated entity until all outstanding violations specified in a Notice of Violation which has become a final administrative decision in accordance with subparagraph e) 10), a Final Director's Decision which has become a final administrative decision of the Commission in accordance with subparagraph e) 11), or by Order of the Commission have been fully abated.
- f) In addition to the issuance of a Notice of Violation(s), the Director may initiate further enforcement proceedings, as provided for in statute, as follows:
- 1) Assessment of a civil penalty as provided in Ark. Code Ann. § 15-71-114, § 15-72-103, § 15-72-202, or § 15-76-303;

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- 2) The revocation of a certificate of clearance on a state-wide basis, as provided for in Ark. Code Ann. § 15-71-110 (11);
  - 3) The filing of a civil complaint in a court of competent jurisdiction in the County where the violation occurred, as provided for in Ark. Code Ann. § 15-72-108 or § 15-76-304;
  - 4) The filing of a criminal complaint in any court of competent jurisdiction, as provided for in Ark. Code Ann. § 15-71-114, § 15-72-104 or § 15-76-303.
- g) Civil Penalties
- 1) The Director shall determine whether to request the assessment of civil penalties based on failure to comply with the applicable abatement requirements for violations issued under subparagraphs (g) (2) and (3) below. The Director shall determine whether to request the assessment of civil penalties for violations issued under subparagraphs (g) (4) below. If a civil penalty is requested by the Director, the Director or his designee may file an application, in accordance with General Rule A-2, A-3, and other applicable hearing procedures, to request the issuance of the requested civil penalty. The Director's requested penalty shall be computed as provided in subparagraphs (g) (2) through (4) below.
  - 2) Administrative violations, defined as failure to file required reports and forms and to provide required notices (excluding spill notice), including, but not limited to regulated activities such as, the failure to file production and well reports or other reports required by Commission rules, regulations, orders or permit conditions; failure to notify the Commission before the setting of surface casing, or the plugging of a well; failure to maintain required performance bond in force for the wells under permit; or pay annual well fees within the specified time. The Director may request the assessment of up to \$1000 per administrative violation and up to \$1000 per day for each day the violation remains unabated after the specified compliance date. The per administrative violation civil penalty request shall be calculated as follows:
    - A) No previous violation of the same rule: \$250. One previous violations of the same rule: \$500. Two or more previous violations of the same rule: \$1000.
    - B) The time frame used for determining previous violations shall be limited to the regulated entity's violation record for the preceding three full calendar years before the issuance of the violation.
  - 3) Operating violations, defined as failure to maintain compliance with Commission rules on well drilling and operation, and production facility, pipeline and seismic operations and/or commencing operations requiring a permit prior to issuance of the required permit. These operations include, but are not limited to regulated activities such as, operating a well or natural gas line system without the proper permit or transfer of ownership, failure to maintain a well or crude oil flow line in a leak-free condition, failure to comply with non-jurisdictional natural gas line requirements, failure to notify of a spill occurrence, failure to maintain containment dikes. Multiple incidents of the same violation against a regulated entity on the same occasion shall not be considered separate violations. The Director may request the assessment of up to \$2500 per operating violation and up to \$2500 per day for each day the violation remains unabated after the specified compliance date, with the exception that operating violations as specified in Ark. Code Ann. § 15-72-202, 15-71-114 and 15-76-303 are limited to a maximum of \$1,000 per operating violation. The per operating violation civil penalty shall be calculated as follows:

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- A) No previous violation of the same rule \$500. One previous violation of the same rule, \$750; two or more previous violations of the same rule, \$1000.
  - B) The time frame used for determining previous violations shall be limited to the regulated entity's violation record for the preceding three full calendar years before the issuance of the violation; plus
  - C) If the violation had a low degree of probability to cause environmental impact to soil and/or land surface, vegetation or crops, surface water, groundwater, livestock or wildlife, add \$250; or, if the violation had a high degree of probability to cause environmental impact to soil and/or land surface, vegetation or crops, surface water, groundwater, livestock or wildlife, add \$500; or, if the violation caused environmental impact to soil and/or land surface, vegetation or crops, surface water, groundwater, livestock or wildlife, add \$1000, or
  - D) If the violation created a hazard to the safety of any person, such as the contamination of a potable water well or emission of hydrogen sulfide gas, add \$2000.
- 4) Except as limited in Ark. Code Ann. § 15-72-202, 15-71-114 and 15-76-303, significant violations may result in a request by the Director or his or her designee, of a civil penalty of up to \$2500 per violation and up to \$2500 per day for each day of the violation for the following types of violations: failure to comply with United States Department of Transportation, Office of Pipeline Safety jurisdictional natural gas line requirements, failure to comply with the provisions of General Rule A-7, failure to comply with well spacing provisions, operating a UIC well without a permit, operating an annular or casing injection/disposal well, operating a UIC well prior to establishing mechanical integrity, operating a UIC well with a failed mechanical integrity test, operating a UIC well with pressure on the annulus, failure to provide emergency response or remediate a crude oil or produced water spill, or the improper disposal or discharge of produced fluids. The per violation civil penalty shall be computed as follows:
- A) An initial amount of \$1000; plus
  - B) One or more previous violations of the same type: add \$500 per violation; plus
  - C) If the violation caused environmental impact to surface water, ground water or wildlife: add \$1000, or if the violation created a hazard to the safety of any person, such as the contamination of a potable water well or emission of hydrogen sulfide gas: add \$1500.
  - D) The time frame used for determining previous violations shall be limited to the regulated entity's violation record for the preceding three full calendar years before the issuance of the violation.
- h) All civil penalties assessed and paid to the Commission shall be deposited in the Commission operating fund. Additionally, all civil penalties assessed and paid, for violations specified in Ark. Code Ann. § 15-72-202 shall be turned into the general fund of the county where the violation occurred to be used on roads, bridges, and highways at the discretion of the county court.

(Source: new rule September 14, 2008; amended July 17, 2009)

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**RULE A-6**

Reserved for Future Use

**RULE A-7 – DETERMINATION OF NATURAL GAS WELL CATEGORIES FOR SEVERANCE TAX PURPOSES**

a) Applicability

In accordance with Ark. Code Ann. § 26-58-128, the Director of the Oil and Gas Commission shall determine the well categories for all gas production wells, which will be used by the Arkansas Department of Finance and Administration to determine the appropriate severance tax rate for each well. All gas production wells under the jurisdiction of the Oil and Gas Commission are subject to the provisions of this rule.

b) Definitions:

- 1) “Commission” shall mean the Arkansas Oil and Gas Commission, on which the Director serves as secretary, but is a non-voting member.
- 2) “Conventional Gas Well” means a gas well that is not classified as a high cost gas well.
- 3) “Director” means the Oil and Gas Commission Director of Production and Conservation.
- 4) “High Cost Gas Well” means a gas well that:
  - A) Produces gas from any shale formation, including but not limited to the Fayetteville Shale, Woodford Shale, Moorefield Shale and the Chattanooga Shale, or their stratigraphic equivalents as described in published stratigraphic nomenclature recognized by the Arkansas Geologic Survey; or
  - B) Produces gas from any completion that is located at a depth of more than 12,500 feet below the surface of the earth, where the term “depth” means the length of the maximum continuous drilling string of drill pipe used between the drill bit face and the drilling rig’s Kelly bushing; or
  - C) Produces gas from a tight gas formation which is defined as a formation which:
    - i) Has previously been determined to be a low permeability formation by Commission Orders or field rules for Booneville and Chismville (84-2003-07), Gragg (89-2004-07), Waveland (86-2004-07), Rich Mountain (304-2006-09), Mansfield (28-2003-03), Witcherville and Excelsior (103-2005-07); and General Rule B-44; or
    - ii) Is determined by the Director to have an estimated in situ permeability of one-tenth millidarcy (0.1 mD) or less; or
    - iii) Is determined to be a tight gas formation by field rule, general rule or orders approved by the Commission and issued by the Director.
  - D) Produces gas from a geopressured brine; or
  - E) Produces occluded gas from a coal seam.

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- 5) “Marginal Conventional Gas Well” shall mean a conventional gas well which is incapable of producing more than 250 Mcf per day, from all zones producing in such well, as determined by the sum of the individual deliverability rates for each zone, using one of the current wellhead deliverability rate methodologies described in subparagraph h) below.
  - 6) “Marginal High Cost Gas Well” shall mean a high cost gas well which is incapable of producing more than 100 Mcf per day, from all zones producing in such well, as determined by the sum of the individual deliverability rates for each zone, using one of the current wellhead deliverability rate methodologies described in subparagraph h) below.
  - 7) “New Discovery Gas Well” shall mean any conventional gas well for the period commencing on the date of first production and ending on the date that is 24 consecutive calendar months following the date of first production.
- c) On or before January 1, 2009, the Director shall determine the initial well category for each existing gas producing well in the State. If a well contains two or more separately metered producing zones (sources of supply), and one or more of the producing zones are different categories, the well category shall be based on which zone in the well produces the larger percentage of the total well production, based on the most recent back pressure test methodology specified in General Rule D-16. On or before January 1, 2009 the Director shall notify each permit holder of each existing wells determination as a:
- 1) High Cost Gas Well, including whether it is a high cost gas well producing gas from the date of first production and for a minimum period of 36 consecutive calendar months following the date of first production, unless a longer time period is granted by the Department of Finance and Administration in accordance with Ark Code Ann. § 26-58-127; or
  - 2) Marginal Conventional Gas Well; or
  - 3) Marginal High Cost Gas Well; or
  - 4) New Discovery Gas Well; or
  - 5) A Conventional Gas Well.
- d) After January 1, 2009 the Director shall determine, at the time of permitting each new well, the appropriate well category as specified in subparagraph c) above, which shall be effective the date of first production from the well. This well category determination, made at the time of the initial new well permit issuance or as amended in accordance with this subparagraph or subparagraph g) below, shall determine the well category throughout the life of that well. Once a permit is issued, if a well is completed in two or more separately metered producing zones (sources of supply), and one or more of the producing zones are different categories, with respect to a Conventional Gas Well or a High Cost Gas Well, the well category shall be based on which zone in the well produces the larger percentage of the total well production, based on the initial back pressure tests required by General Rule D-16. The well category determination, shall determine the category for that well throughout the life of that well, regardless if other zones are produced within the well at a later date, until such time as the well qualifies as a Marginal Conventional Gas Well or a Marginal High Cost Gas Well.

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- e) Following the well category determination for all existing wells on January 1, 2009, and the ongoing categorization for all new wells after January 1, 2009, the permit holder may request at any time, on a form prescribed by the Director, another well category determination with respect to the well category definitions specified in subparagraph b) above, in accordance with the application procedures specified in subparagraph i) below.
- f) Upon submission of the application and supporting documentation or other required information, the Director shall make a determination within fifteen (15) calendar days from the receipt of such application.
  - 1) The effective date of the well category determination request shall automatically be the first day of the next month following the postmark date the application was mailed to the Director or date of the Director's Office date stamp, if delivered in person to the Director.
  - 2) If approved by the Director, the application shall be sent via first class mail to the permit holder and a copy forwarded to the Department of Finance and Administration ("DFA").
  - 3) If the application is denied by the Director, the permit holder may appeal the Director's determination to the Commission by filing an application in accordance with General Rule A-2, A-3, and other applicable hearing procedures. If the permit holder does not appeal the denial, and the date of the Director's denial occurs after the effective date of the well determination request as defined in subparagraph f) 1) above, the permit holder may be subject to additional payment provisions in accordance with DFA procedures. If the permit holder appeals the denial, the effective date of the well categorization request shall remain in effect pending the outcome of the appeal.
- g) If following a review of completion reports, monthly production reports, the applicable wellhead deliverability rate, utilizing one of the current methodologies specified in subparagraph h) below, or other information, the Director determines a well is not correctly categorized, the Director shall determine the correct well category and notify the permit holder. The corrected well category determination shall become effective on the first day of the month following the month in which the Director notifies the permit holder of the corrected well category determination, unless the permit holder files an appeal of the Director's decision in accordance with General Rule A-2, A-3, and other applicable hearing procedures.
- h) All existing well category determinations under subparagraph c) and all new well category determinations under subparagraph d) shall be made on the basis of one of the following current wellhead deliverability rate methodologies:
  - 1) Establishing cumulative deliverability of the well utilizing test methodologies specified in General Rule D-16; or
  - 2) Calculating the cumulative deliverability of the well utilizing the most recent six month average daily rate of production for the well under actual operating conditions by dividing the total gas reported for the well by the number of days the well produced during the applicable six month period. However, this well category determination method is not applicable for wells subject to an exceptional location penalty.
- i) Well Category Determination and Application Procedures
  - 1) High Cost Gas Well.

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- A) The High Cost Gas Well category shall be assigned to all existing wells on January 1, 2009, which satisfy the definition of a High Cost Gas Well in accordance with subparagraph b) 4) above. If on that date the High Cost Gas Well has a reported date of first production on or after January 1, 2006, the well shall automatically qualify for a cost recovery period for a period of 36 consecutive calendar months following the date of first production, unless a longer time period is granted by the Department of Finance and Administration in accordance with Ark Code Ann. § 26-58-127.
  - B) On or after January 1, 2009, the High Cost Gas Well category shall be assigned to all newly permitted wells that satisfy the definition of a High Cost Gas Well in accordance with subparagraph b) 4) above at the time of well categorization in accordance with subparagraphs d) and g) above. The well shall automatically qualify for a cost recovery period for a period of 36 consecutive calendar months following the date of first production, unless a longer time period is granted by the Department of Finance and Administration in accordance with Ark Code Ann. § 26-58-127.
  - C) At the conclusion of the cost recovery period, specified in subparagraph i) 1) A) and B) above, the well shall automatically be re-classified as a High Cost Gas Well no longer subject to the tax rate for the cost recovery period, and shall be subject to the applicable severance tax rate specified in Ark Code Ann. § 26-58-111(5)(D) unless an application is made for classification as a Marginal High Cost Gas Well in accordance with subparagraph i) 3) B) below. The effective date of the automatic re-classification shall be the first day of the month following the month in which the specified recovery period expired.
- 2) New Discovery Gas Well
- A) The New Discovery Gas Well category shall be assigned to all existing conventional wells on January 1, 2009, which as of that date, have a reported date of first production on or after January 1, 2007.
  - B) The New Discovery Gas Well category shall be automatically assigned to all newly permitted conventional wells on or after January 1, 2009 at the time of well categorization in accordance with subparagraphs d) and g) above. The well category determination shall remain in effect for 24 consecutive calendar months following the date of first production.
  - C) At the conclusion of the 24 consecutive calendar months following the date of first production, the New Discovery Gas Well determination shall automatically terminate. The effective date of the automatic termination shall be the first day of the month following the month in which the actual date of termination occurred. The well shall be automatically re-classified as a Conventional Gas Well subject to the applicable severance tax rate specified in Ark Code Ann. § 26-58-111(5)(D), unless application is made for classification as a Marginal Conventional Gas Well in accordance with subparagraph i) 3) B) below.
- 3) Marginal Conventional Gas Well and Marginal High Cost Gas Well
- A) The applicable Marginal Gas well category shall be assigned to all existing Conventional Gas Wells and High Cost Gas Wells on January 1, 2009, that qualify as either a Marginal Conventional Gas Well or a Marginal High Cost Gas

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Well and, which as of that date do not qualify as either a New Discovery Gas Well during the cost recovery period set forth in subparagraphs i) 2) A), and B) above, or a High Cost Gas Well during the cost recovery period set forth in subparagraphs i) 1) A) and B) above.

- B) When a Conventional Gas Well qualifies as a Marginal Conventional Gas Well, or a High Cost Gas Well qualifies as a Marginal High Cost Gas Well, a permit holder may apply to the Director, for a Marginal Conventional Gas Well or Marginal High Cost Gas Well category determination. The request shall be on a form prescribed by the Director and shall include a copy of the most recent well head deliverability rate determination for all producing zones based on one of the current wellhead deliverability rate methodologies specified in subparagraph h) above.
  - C) The effective date of the applicable Marginal Gas well determination shall be the first day of the month following the month in which the permit holder's application was received in accordance with subparagraph f) above.
  - D) A permit holder shall immediately notify the Director in writing when a well, which has been previously determined to be a Marginal Conventional Gas Well no longer qualifies as a Marginal Conventional Gas Well, or a Marginal High Cost Gas Well no longer qualifies as a Marginal High Cost Gas Well. When a previously determined Marginal Conventional Gas Well becomes capable of producing more than 250 Mcf per day over a 30 day period or a well previously determined to be a Marginal High Cost Gas Well becomes capable of producing more than 100 Mcf per day over a 30 day period, the permit holder shall submit a copy of the most recent well-head deliverability rates for each producing zone in the well, based on one of the current wellhead deliverability rate methodologies specified in subparagraph h) above, along with the required written notice to the Director.
- 4) Wells not classified as a High Cost Gas Well, New Discovery Gas Well, Marginal Conventional Gas Well or Marginal High Cost Gas Well, as described above, shall be automatically classified as a Conventional Gas Well subject to the severance tax rate specified in Ark Code Ann. § 26-58-111(5)(D).
- j) Failure to comply with any provision of this rule may result in the initiation of enforcement actions in accordance with General Rule A-5, including the assessment of a civil penalty not to exceed two thousand five hundred dollars (\$2500) per day for each day of the violation.

(Source: new rule November 16, 2008; amended June 5, 2009)

### **RULE A-8 - REPORTING REQUIREMENTS FOR MINERAL PROCEEDS ESCROW ACCOUNTS**

- a) In accordance with Ark. Code Ann. § 18-28-402 every holder of mineral proceeds shall establish an escrow account for mineral proceeds if the person entitled to the receipt of the mineral proceeds is unknown or has not been located within one (1) year after the funds become payable or distributable.
- b) Any holder required to establish more than one (1) escrow account by this rule may commingle all such accounts in a single account, provided that the holder shall maintain separate records of each deposit and withdrawal for every escrow account.

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- c) Every holder shall file an annual report for each escrow account until such time as the mineral proceeds are presumed abandoned and deposited by the Auditor of the State in the Abandoned Mineral Proceeds Trust Fund as specified in Ark. Code Ann. § 18-28-403.
- d) The annual report shall contain the following information for each escrow account:
  - 1) the name and last known address of the property owner;
  - 2) the legal description of the property interest;
  - 3) the location and account number of the escrow account;
  - 4) the name of the person authorized to order withdrawals from the escrow account; and
  - 5) any other information the Commission may require.
- e) The annual reports are required to be filed on January 15th of each year and shall be deemed delinquent on February 1<sup>st</sup> of each year. Failure to submit the required reports by February 1<sup>st</sup> of each year may result in the issuance of a fine not to exceed one thousand dollar (\$1,000) for each violation.
- f) Any holder who violates any other provision of this Rule may be subject to a fine not to exceed one thousand dollar (\$1,000) for each violation, and the Commission may conduct random audits of the escrow accounts required by this Rule.

(Source: new rule November 16, 2008)

**GENERAL RULE B - DRILLING AND PRODUCTION**

**RULE B-1 - APPLICATION TO DRILL**

Before any person, firm or corporation shall spud in and begin the actual drilling of any well in search of oil and/or gas in the State of Arkansas, such person, firm or corporation shall file with the Oil and Gas Commission its application in such form as the Commission shall require for a permit to drill said well. The application shall be accompanied by the sum of Three Hundred Dollars (\$300.00), as the Commission shall prescribe as the fee for granting of a permit. [Order Reference Number 154-2000-11(8) authorized the Commission to increase the fee for a permit to drill from \$150.00 to \$300.00 effective January 1, 2001.] The permit so issued by the Commission shall be in such form as it may by its rules and regulations prescribe, and the number of said permit shall at all times be prominently displayed upon the derrick used in drilling of the well.

(Source: 1991 rule book)

**RULE B-2 - PROOF OF FINANCIAL RESPONSIBILITY REQUIRED TO BE FURNISHED**

- a. For purposes of this rule, the person, operator, producer, or owner designated by the Director of Production and Conservation or his designee as the party responsible for compliance, and whom is the entity required to hold the permit to drill, produce, dispose or inject will be referred to as the permit holder.
- b. Financial Assurance is required to be submitted with the following applications:
  1. An application to drill an oil and/or gas well, Class II disposal well, injection well, brine production well, Class V brine disposal well, water supply well or other type of exploratory hole(s) or well(s); or
  2. An application to transfer ownership or operations of any existing oil and/or gas well, Class II disposal well, injection well, brine production well, Class V brine disposal well, water supply well or other type of exploratory hole(s) or well(s) to another permit holder.
- c. Financial Assurance is required to remain in full force and effect by the designated permit holder:
  1. for one year after the issuance of the permit to drill in accordance with A.C.A. 15-72-214; or
  2. until the well(s) have been plugged and associated production site(s) restored in accordance with Commission rules; or
  3. the well(s) have been transferred to a new permit holder in accordance with Commission rules; or
  4. all outstanding notices of violation or orders of compliance issued against the permit holder have been satisfied; or
  5. the permit holder has paid annual fee assessments to the Commission in accordance with section h. of this rule for two consecutive years, and such permit holder is not in violation of the Commission's regulations or statutes; or

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6. all permit holders of record with the Commission on January 1, 2006 who were assessed annual fees in accordance with section (h) of this rule and paid such fees, and who were not in violation of any Commission order or rule at the time the fees were paid.
- d. Financial Assurance shall be submitted and payable to the Commission in the form of:
1. A surety bond issued by a surety company authorized to transact business in Arkansas; or
  2. An irrevocable letter of credit subject to the following conditions:
    - A.) The letter of credit shall be issued by a bank whose deposits are insured by the Federal Deposit Insurance Corporation.
    - B.) The letter of credit shall provide on its face that the Commission, its lawful assigns, or the attorneys for the Commission or its assigns, may sue, waive notice and process, appear on behalf of, and confess judgment against the issuing bank (and any confirming bank) in the event that the letter of credit is dishonored. The letter of credit shall be deemed to be made in Union County, Arkansas for the purpose of enforcement and any actions thereon shall be enforceable in the Courts of Arkansas, and shall be construed under Arkansas law.
  3. A Certificate of Deposit subject to the following conditions:
    - A.) The Director of Production and Conservation or his designee shall require that certificate of deposit be made payable to or assigned to the Commission both in writing and upon the records of the bank issuing the certificate. If assigned, the Director of Production and Conservation or his designee shall require the banks issuing these certificates to waive the rights of setoff or liens against those certificates.
    - B.) The Director of Production and Conservation or his designee shall not accept an individual certificate of deposit in an amount in excess of the maximum insurable amount as determined by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation.
    - C.) Any interest accruing on a certificate of deposit shall be for the benefit of the permit holder except that accrued interest shall first be applied to any prepayment penalty when a certificate of deposit is forfeited by the Commission.
    - D.) The Certificate of deposit, if a negotiable instrument, shall be placed in the Commission's possession. If the certificate of deposit is not a negotiable instrument, a withdrawal receipt, endorsed by the permit holder, shall be placed in the Commission's possession.
3. Cash submitted in the form of personal or corporate check, money order, or cashiers check to be deposited in the Commission's authorized bank account.
- e. Financial Assurance shall be required for:
1. all holders of permits to drill and/or operate gas well(s), and all Class II disposal wells injecting fluids associated with dry gas production wells ; and
  2. all permit holders of commercial Class II disposal wells; and

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3. all permit holders of brine production and Class V brine disposal well(s), and
  4. all permit holders of other types of wells or exploratory holes or wells, and
  5. all permit holders of liquid hydrocarbons production wells and Class II disposal and enhanced oil recovery injection wells operated in conjunction with liquid hydrocarbon wells, whom have not been a permit holder of record with the Commission for a minimum of two calendar years preceding the date of the application specified in section (b) above.
- f. When a permit holder is required to submit Financial Assurance, the minimum amount of the Financial Assurance shall be:
1. \$3,000 per well for an oil and /or gas production well, Class II Enhanced Recovery well; brine production well, water supply well, or other type of exploratory hole or well; or
  2. \$25,000 for a Class II Disposal or Class V Brine Disposal wells; or
  3. \$50,000 for a Class II Commercial Disposal well; or
  4. A blanket financial assurance as follows:
    - A.) \$25,000 for 1-25 wells; or
    - B.) \$50,000 for 26-100 wells; or
    - C.) \$100,000 for 101 or more wells.
- g. The Director of Production and Conservation or his designee is authorized to approve administratively each financial assurance instrument required to be filed with the Commission. The Director is further authorized to require additional financial assurance based on but not limited to how long a permit holder has operated in the State, environmental consideration of the well location, and other factors impacting the cost of plugging the well and restoring the associated well site, and the compliance history of the permit holder.
- h. Effective January 1, 2006, financial assurance in the form of annual fees shall be paid<sub>1</sub> by all permit holders of liquid hydrocarbon wells and any Class II Disposal or Class II Enhanced Recovery wells associated with liquid hydrocarbon wells, as follows:
1. Fees shall be assessed annually for all issued permits and wells of record as of January 1 of each year.
  2. All assessed fees shall be paid in full by March 1 of each year, after which time the permit holder's Authority to Produce and Transport and Authority to Dispose and/or Inject will be terminated until all delinquent fees are paid.
  3. The permit holder shall remain liable for the payment of such fees until the well or wells under permit to the permit holder are plugged and restored; or the well or wells have been transferred to a new permit holder pursuant to Commission rules. Liability for payment of annual well fees ceases on the date when the well has been plugged and restored, or on the effective date stated on the Commission's Notification of Transfer form.

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4. If a permit holder's fee check is returned due to insufficient funds or because payment was stopped, the permit holder is required to repay fees for that year by cashiers check or money order.
- i. A permit holder may administratively contest the amount of the fee assessment as follows:
    1. By submitting a written objection to the assessment amount on or before March 1 of each year. The objection must be accompanied by the full assessed amount.
    2. The objection must be in writing, signed by the permit holder, or by an individual authorized to sign for the permit holder, and must identify the nature of the objection. The written objection must include a statement of the facts supporting the objection and copies of any relevant documents to support the objection.
    3. The Director of Production and Conservation or his designee shall review the application, and has the authority to amend the fee assessment and refund any monies due the permit holder.
  - j. The amount of annual fees assessed each January 1 to all permit holders of liquid hydrocarbon and associated Class II wells shall be as follows:

1.	1-5 Permits or Wells	\$100/Well
2.	6-15 Permits or Wells	\$750/Operator
3.	16-50 Permits or Wells	\$1,250/Operator
4.	51-150 Permits or Wells	\$2,000/Operator
5.	151-300 Permits or Wells	\$3,000/Operator
6.	301 or more Permits or Wells	\$4,000/Operator
  - k. Permit holder's failure to comply with the Commission's order to plug, replug or repair a well, or to restore a well site, within thirty (30) days of the issuance of such order constitutes grounds for forfeiture of the financial assurance held by the Commission, as follows:
    1. The Director shall send written notification by certified mail, return receipt requested, to the Permit Holder and the issuer of the financial assurance, if any, informing them of the Director's determination to forfeit the financial assurance for failure to comply with the above Commission Order.
    2. The Director may allow the financial assurance issuer to undertake necessary plugging, replugging, repair or site restoration work if the financial assurance issuer can demonstrate an ability to complete such work in accordance with Commission rules. No financial assurance liability shall be released until the successful completion of all plugging, replugging, repair or site restoration ordered by the Commission.
    3. In the event forfeiture of the financial assurance is warranted under the provisions of this rule, the Director shall afford the permit holder the right to a hearing, if such hearing is requested in writing by the Permit Holder within fifteen (15) days after the forfeiture notification is mailed in accordance with subsection (1). If the permit holder does not request a hearing within the fifteen (15) day period, the Director shall issue a final

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decision ordering forfeiture and collection of funds. If a hearing is requested by the permit holder, the hearing shall be docketed for the next regularly scheduled Commission hearing.

4. At the forfeiture hearing, the Director shall present evidence in support of the determination for financial assurance forfeiture. The Permit Holder shall present evidence contesting the Director's determination. The Commission may administer oaths and affirmations, subpoena witnesses and written or printed materials, compel attendance of witnesses or production of those materials, compel discovery, and take evidence, necessary to render a decision.
5. Within thirty (30) days after the close of the record for the forfeiture hearing, the Commission shall issue findings of fact, conclusions of law and the disposition of the case.

(Source: 1991 Rule Book; amended (Order 27-95) June 20, 1995; amended (Order 4-99) March 23, 1999; amended January 15, 2006; amended October 15, 2006; amended November 16, 2008; amended June 5, 2009)

### **RULE B-3 - SPACING OF WELLS**

- a. For purposes of this rule and with respect to all established field rules, exploratory drilling units, wildcat wells, and in uncontrolled areas, the term well location shall be defined as follows:
  - (1) For the purpose of well drilling permit issuance, well location is defined as the proposed bottom hole location in a vertical or directionally drilled well or the estimated productive portion of a lateral in a horizontal well, projected to the surface. For purposes of assigning an API number the well site location shall be considered the actual surface location of the well.
  - (2) For the purpose of well setback provisions, except in uncontrolled areas, well location is defined as the actual physical location of the completed interval in the well, projected to the surface, as follows:
    - A. In a vertically drilled well without a directional survey, the well location is the surface location. In a vertically drilled well, the well location is the location of the perforated interval of the well bore, projected vertically to the surface;
    - B. In a directionally drilled well, the well location is the location of the midpoint of the perforated interval of the producing formation, as calculated from the directional survey, projected vertically to the surface;
    - C. In a horizontally drilled well, the well location is the entire perforated length of the lateral section of the well bore, as shown on a directional survey, projected vertically to the surface.
- b. The spacing of wells in oil and gas fields established by Commission Order, shall be governed by field rules for that particular field, adopted after notice and hearing.
- c. The spacing of wells in other areas designated as prospective of oil and gas production shall be governed by General Rule adopted after notice and hearing.
- d. The well location for a well drilled for oil or gas production in an exploratory drilling unit

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established by Commission Order shall not be located closer than 280 feet from the drilling unit boundary , except that wells drilled in exploratory drilling units established by General Rule B-43, shall be governed by the well setback provisions of General Rule B-43.

- e. The following applies to all wildcat well locations not drilled in exploratory drilling units:
  - (1) The well location for a wildcat well drilled for oil or gas production purposes, within an area not covered by Field Rules or General Rule B-43, shall not be located closer than 280 feet from a quarter, quarter division line within a governmental section.
  - (2) The well location for a wildcat well, drilled for the purposes of oil or gas production, within an area subject to Field Rules, but proposed to be drilled to a geologic formation for which Field Rules have not been established shall be subject to the set back provisions specified in e (1) above.
- f. The well location for a well drilled for oil or gas production purposes, and completed in pools in field(s) where Field Rules do not exist for these uncontrolled pools, shall not be located closer than 280 feet from the nearest mineral lease line.
- g. The well location for an injection well drilled or completed for enhanced recovery purposes shall not be located closer than 280 feet from a unitized boundary line. The well location for a disposal well drilled or completed pursuant to General Rule C-7 shall be located no closer that 280 feet from the drilling unit boundary, or no closer than 280 feet from the mineral lease line if such well is located outside a drilling unit.
- h. The well location for wells drilled for the purposes of water supply for purposes of enhanced oil recovery are subject to all the provisions of this rule with the exception of the set back provisions for well location. No production of hydrocarbons will be allowed from a water supply well.
- i. The Commission may, after notice and hearing, grant exceptions to the rule, provided such exceptions will create neither waste nor hazards conducive to waste. No well drilled in violation of this rule without special permit obtained in the manner prescribed in said rule and no well drilled under such a special permit, which does not conform to the terms of such special permit in all respects, shall be permitted to produce either oil or gas and any such well so drilled in violation of said rule or in violation of a permit granted under an exception to such rule shall be plugged.

(Source: 1991 rule book; amended November 13, 2005; amended September 16, 2006)

### **RULE B-4 - IDENTIFICATION OF WELLS**

Rule Repealed Effective November 11, 2007

### **RULE B-5 - SUBMISSION OF WELL RECORDS AND ISSUANCE OF CERTIFICATE OF COMPLIANCE**

- a. During the drilling, original completion, recompletion, or workover of every well, the owner, operator, contractor, driller or other person responsible for the conduct of drilling, original completion, recompletion or workover operations, shall keep adequate records of the well being drilled, all of which shall be accessible to the Commission and its agents at all reasonable times.
- b. For purposes of this rule, original completion shall be defined as initial zone perforation, and configuration of wellhead for production, excluding pipeline connections. Any further completion

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- work, after the initial configuration of the wellhead, shall be considered a recompletion or workover, and subject to the filing requirements of Section (d) or (f) below.
- c. For purposes of this rule, recompletion is as defined in General Rule A-4.
  - d. For purposes of this rule, workover is as defined in General Rule A-4. Upon completion of workover operations, only well records specified in Section (f)(1)(3) are required to be submitted.
  - e. Wells drilled as dry holes, where production casing has not been set, shall be subject to the well record submission requirements specified in Section (f) (1), (2) and (3) within 30 days after the completion of drilling activities.
  - f. Upon original completion or recompletion of the well, the operator, contractor, driller, or other person responsible for the conduct of the drilling operation shall file with the Commission:
    - 1. Properly filled out Well Completion Report.
    - 2. All electric logs or other geophysical logs of the open well bore, which measure resistivity, porosity, temperature, and gamma ray emission and for planned directional and horizontal wells, borehole deviation and direction logs including a true vertical depth logs, to be submitted in a 1 inch, 2 inch and 5 inch to 100 foot scale format or other scale format acceptable to the Commission. All logs shall be submitted, at a minimum, as paper copies in standard continuous logging paper format. If electronic copies of the logs can be provided from the logging service company, the operator is also required to submit copies of the electronic logs in either LAS (ASCII Format) or raster format image (200 DPI Black & White in TIF, JPG, BMP) to the Commission on an approved electronic storage device. If electronic copies of the logs cannot be provided by the logging service company, the operator shall file an affidavit with the Commission stating electronic logs could not be provided by the logging service company.
    - 3. All logging and well service company tickets applicable to the completion or recompletion operation which indicate all logging and completion activities occurring in the well.
    - 4. Properly filled out Request for Certificate of Compliance.
    - 5. Application to Abandon other than for a dry hole
  - g. For directional or horizontal wells, or deviated wells not in compliance with General Rule B-30, the following shall also be submitted:
    - (1) A post drilling plat shall be filed with any Completion and Recompletion Report to demonstrate the actual location of all vertical, directional and horizontally drilled boreholes in the drilling unit. The plat should provide and present the following:
      - A. The locations of all wells which have been drilled within the drilling unit (except for those wells that have been plugged and abandoned), by providing their surface and bottom hole location, and either midpoint perforations for deviated or directionally drilled wells or the closest point along any lateral section of the horizontal portion of the well bore (whichever is applicable) measured to the nearest mineral lease, drilling unit or division line within a governmental section, whichever applies to the established drilling unit in that field; and

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- B. The distance between common sources of supply for which an allowable determination is required; and
  - C. The actual location of the entire perforated length of the lateral section in a horizontal well showing the set back distances to offset wells.
- (2) A directional survey in table form, accompanied by the following:
- A. A two dimensional cross section diagram, viewed perpendicular to the axis of maximum lateral borehole displacement, which depicts the measured and true vertical depth and the displacement from vertical of the wellbore; and
  - B. An azimuth plot viewed in plan view providing displacement of the well path from the surface location.
- h. The above reports shall be filed within 30 days of the original completion, recompletion or workover of the well and prior to commencement of production. Upon receipt of the required information specified in Section (f) (1), (2) and (4), and Section (o) (8) of General Rule B-43 if applicable, a Certificate of Compliance shall be issued granting authority to produce and transport oil and/or gas for a period of 30 days at which time the required information specified in Section (f) (3) must be on file in order for a final Permit to Produce and Transport to be issued. However, if completion activities are not completed within 90 days of the setting of the production casing or other production related casing, the required information specified in (f) (1), (2) and (3) are required to be submitted, pending submission of final reports at the conclusion of completion activities and a request for a Certificate of Compliance.
- i. Failure to comply with the provisions of this rule shall be sufficient reason to cause the suspension of the issuance of any further drilling permits on a statewide basis to that operator until the required information is submitted to the Commission, within 10 days following written notice provided to the operator of the failure to provide the required information.
- j. If an operator makes a request, in writing, that the logs described in Section (f) (2) be kept confidential, the request will be honored for a period not to exceed 90 days after the logging for completion or abandonment of the well, provided that the report or the data thereon, when pertinent, may be introduced in evidence in any public hearing before the Commission or any court, regardless of the request that such record be kept confidential.

(Source: 1991 rule book; amended September 16, 2006; amended January 14, 2008; amended May 11, 2008)

### **RULE B-6 - OIL, GAS AND WATER TO BE PROTECTED**

Before any well or any producing horizon encountered therein shall be abandoned, the owner or operator shall use such means, methods and procedures as may be necessary to prevent water from entering any oil or gas-bearing formations, and to protect any underground or surface water that is suitable for domestic or irrigation purposes from waste, downward drainage, harmful infiltration and addition of deleterious substances.

(Source: 1991 rule book)

### **RULE B-7 - WHEN WELLS SHALL BE PLUGGED AND ABANDONED AND NOTICE OF INTENTION TO PLUG AND ABANDON WELLS**

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- a) The current permit holder is responsible for plugging wells as defined in this rule. In the case of leaking wells, plugging responsibility is in accordance with General Rule B-26 (k) and (l).
- b) All new wells drilled for oil, gas, or brine exploration, oil, gas or brine production, water supply or injection purposes, except such holes as are described in Rule B-10, regardless of depth are required to be either properly cased with production casing or the uncased well or dry hole shall be plugged and abandoned in accordance with applicable commission rules, unless an extension of time to plug is granted in accordance with subparagraph (c) below.
- c) **Uncased wells and dry holes**
  - 1) Any well in which production casing is not set and cemented shall be plugged in accordance with applicable commission rules, prior to the time that the equipment used to drill said well is released from the drilling operation. In the case of “staged” drilling operations, where multiple drilling rigs are used to drill the well over a period of time, production casing shall be set and cemented within 180 days after setting of the surface casing or the well shall be plugged, unless an extension of time to plug is granted in accordance with subparagraph 2) below.
  - 2) The Director however, may grant an extension of time to plug an uncased well. In determining whether to grant an extension and in determining the length of an extension, the Director may consider:
    - A) The permit holders specific plans for further wellbore utilization,
    - B) The total depth of the well,
    - C) The depth of surface and any intermediate casing,
    - D) A description of the current condition of the hole including a description of the type of drilling fluids currently in the well,
    - E) The location of the well.
  - 3) If the Director determines that the uncased well presents a risk of contamination to the environment or a risk to public safety the Permit Holder shall be required to repair, case, plug or perform other remediation measures to the well, as determined by the Director, within twenty four (24) hours after notification by the Director.
- d) All cased wells utilized for oil, gas or brine production, water supply or injection purposes, except such holes as are described in Rule B-10, shall be plugged and abandoned in accordance with applicable commission rules after the well has been idle for more than 24 months, or sooner should the Director determine that the cased well presents a risk of contamination to the environment or a risk to public safety, unless an application is filed to request temporary abandonment status for the well in accordance with subparagraph h) below. Upon such determination by the Director or if temporary abandonment status is denied, the Permit Holder shall commence plugging the well within 30 days after notification by the Director. Failure to commence plugging the well within 30 days after notification by the Director may result in the initiation of well abandonment proceedings in accordance with General Rule G-1.
- e) Prior to the commencement of any work in plugging and abandonment operations, the permit holder or other person responsible for the conduct of the drilling operations shall give notice of the intent to plug and abandon such well in a form prescribed by the Director as follows:

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- 1) For uncased wells and dry holes, notice shall be provided via verbal or facsimile communication to the Commission Regional Office where the well is located, as soon as possible, but no less than 8 hours, prior to commencement of plugging operations.
  - 2) For cased wells, written notice on a form prescribed by the Director shall be provided to the Commission Regional Office where the well is located, at least 72 hours prior to the commencement of plugging operations.
- f) Upon receipt and review of such verbal or written notice, the Commission Regional Office shall authorize the commencement of plugging operations and may send a duly authorized Commission representative to the well location to witness the plugging of such well.
- g) Authorization to plug and abandon is not granted unless the appropriate notice, as specified in subparagraph (e) above, has been provided to the Oil and Gas Commission by the permit holder or person responsible for the plugging of the well. Plugging of the well without providing proper notice as required can result in the Permit Holder being required to drill out the well plugs and the well replugged under Commission observation.
- h) Temporary Abandonment Status
- 1) An application for temporary abandonment status shall be made on form prescribed by the Director and, if approved, shall be valid for a period not to exceed three (3) years from the date of the Director's approval. At the expiration of the three (3) year period the Permit Holder shall commence plugging operations within thirty (30) days, or file an application to request a hearing before the Commission in accordance with General Rules A-2, A-3 and other applicable hearing procedures to request an extension of the three (3) year period of the temporary abandonment status. Wells in an approved waterflood/enhanced oil recovery unit are exempt from the three (3) year time limit as long as the unit remains active.
  - 2) Wells which have not produced for more ten (10) years are not eligible for approval by the Director of temporary abandonment status. Temporary abandonment status for these wells may only be granted by the Commission after notice and a hearing in accordance with General Rule A-2, A-3 and other applicable hearing procedures.
  - 3) Temporary abandonment status shall be approved by the Director provided:
    - A) The well is secured with a suitable wellhead with no leakage of any substance at the surface, and
    - B) The well site is maintained in accordance with General Rule B-26 i), and
    - C) Proper well identification is maintained in accordance with General Rule B-26 b), and
    - D) Useable groundwaters are protected utilizing one of the following methods:
      - i) Set a drillable, retrievable or other type of mechanical bridge plug above the producing interval, in the cemented portion of the production casing, but at least 150 feet below the base of the lowest usable groundwater in the area, and secured at the surface with a wellhead and valve in operable condition; or

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- ii) Set a packer run on tubing above the producing interval, in the cemented portion of the production casing, but at least 150 feet below the base of the lowest usable groundwater in the area, and secured at the surface with suitable wellhead packoff equipment and closed to the atmosphere or with a wellhead and valve in operable condition;
  - iii) Run a casing inspection log confirming the mechanical integrity of the production casing and secured at the surface with a wellhead and valve in operable condition; or
  - iv) Conduct a fluid level test by wireline or other approved electronic or mechanical means, which determines that the static fluid level is at least 150 feet below the base of the lowest usable groundwater in the area, and which must be witnessed by commission staff upon no less than 48 hours notice prior to conducting the fluid level test. The fluid level test shall be conducted annually, on the anniversary date of the temporary abandonment during each year of the three (3) year temporary abandonment period.
- 4) Failure to maintain any of the above conditions will result in revocation of the temporary abandonment status and require the well to be plugged in thirty (30) days, unless an extension of time to plug is granted after notice and hearing.
- 5) Wells returning to active status from temporary abandonment status shall file for authorization to commence production operations on a form prescribed by the Director.

(Source: 1991 rule book; amended December 16, 2007; amended February 19, 2009)

### **RULE B-8 - PLUGGING METHODS AND PROCEDURES**

The methods and procedures for plugging a well shall be as follows:

- A. The bottom of the hole shall be filled to the top of each producing stratum and a cement plug of not less than one hundred (100) feet in length shall be placed inside the casing immediately above each producing stratum; or a bridge plug, regular or wireline type, may be placed at the top of each producing stratum. In the event bridge plugging is to be used for permanent abandonment, the bridge plug must be covered with a minimum of ten (10) feet of cement; the casing must be free from openings, except perforations for the injection or producing formation and the casing well bore annulus must be filled with cement to fifty (50) feet above the top of the formation.
- B. A cement plug not less than one hundred (100) feet in length shall be placed at approximately fifty (50) feet below all fresh water-bearing stratum when the surface casing is not cemented below the base of the fresh water-bearing stratum. In the event the surface casing has been cemented below the base of the fresh water-bearing stratum, a one hundred (100) foot cement plug shall be placed inside the base of the surface casing.
- C. A plug shall be placed at the surface of the ground in each hole plugged in such manner as not to interfere with soil cultivation.
- D. The interval between plugs shall be filled with an approved heavy mud-laden fluid.

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- E. An uncased rotary drilling hole shall have a cement plug of not less than one hundred (100) feet placed immediately above (1) the Smackover limestone zone and (2) any known productive zone in the area, and the hole shall be filled with approved heavy mud up to the base of the surface casing and a plug of not less than one hundred (100) feet of cement placed inside the base of the surface casing, provided the casing is cemented through the base of the fresh water-bearing stratum. A cement plug of not less than one hundred (100) feet in length shall be placed at a point fifty (50) feet below the base of the fresh water-bearing stratum in the event the surface casing is not cemented through the base of the fresh water-bearing stratum. The hole shall be capped similar to other abandoned holes.
- F. Any other method approved by the Commission may be used.

(Source: 1991 rule book)

### **RULE B-9 - AFFIDAVIT ON PLUGGING COMPLETION**

Rule Repealed Effective October 15, 2006.

### **RULE B-10 - SEISMIC CORE AND OTHER EXPLORATORY HOLES TO BE PLUGGED; METHODS, RECORDS**

Before any hole is abandoned which is drilled for seismic, core or other exploratory purposes below the fresh water formation, it shall be the duty of the owner or driller of any such hole to plug the same in such manner as to properly protect all water-bearing formations.

- A. Core Holes:
1. Core holes shall comply with the Minimum Surface Casing and Plugging Requirements.
  2. No core hole shall be completed as a producing well.
  3. A Plugging Record shall be filed no later than thirty (30) days from the date drilling operations commence.
  4. A copy of all electric logs shall be filed with the Commission no later than one (1) year from the date drilling operations commence. In the event an electric log was not run, the operator shall file a copy of a driller's log.
  5. All information required to be filed shall be kept confidential for a period of one (1) year from the date drilling operations commence.

(Source: 1991 rule book)

### **RULE B-11 - DOMESTIC NATURAL GAS WELLS AND CONVERSION OF PERMITTED OIL AND NATURAL GAS WELLS FOR USE AS DOMESTIC NATURAL GAS OR FRESH WATER SUPPLY WELLS**

- a) Domestic Natural Gas Wells
- 1) Any well drilled by persons for use as a domestic, livestock or agriculture natural gas source, is not under the jurisdiction of the Commission and is not subject to permitting or regulation by the Commission, provided such natural gas is not sold or gathered for sale to others. Such wells may be subject to other applicable State laws.

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- 2) If the gas produced from a well operating as a domestic use well is gathered for resale to others, that well is under the jurisdiction of the Commission and shall be subject to all applicable regulatory requirements of the Commission and any other applicable state laws regarding the production, gathering and distribution of natural gas for use by consumers.
- b) Domestic Use Transfer(s) after November 16, 2008.
- 1) A natural gas production well, required to be permitted by the Commission, may be transferred to a surface owner for use as a domestic natural gas supply well if the well has not produced commercial quantities of natural gas during the previous twenty four (24) calendar months provided:
    - A) The operator files, on a form prescribed by the Director, a request to transfer the well to the surface owner, which shall include written documentation from the surface owner accepting transfer of the well for use as a domestic natural gas supply well; and
    - B) A statement by the surface owner and the operator that the natural gas from the well will be used on the property where the well is located and that any natural gas production from the well will not be sold; and
    - C) Written documentation from all owner(s), as defined in Ark. Code Ann. § 15-72-102 (9), and all mineral owners in the drilling unit upon which the well is located, stating that they do not object to the transfer of the well to the surface owner.
  - 2) An oil or natural gas production well may be transferred to a surface owner for use as a domestic or livestock freshwater supply well provided:
    - A) The operator files, on a form prescribed by the Director, a request to transfer the well to a surface owner prior to commencing plugging operations, which shall include written documentation from the surface owner accepting transfer of the well for use as a freshwater supply well; and
    - B) The well is plugged in accordance with current Commission plugging requirements with respect to all oil and natural gas producing zones and a cement plug is placed, on the inside and outside of the production casing if left in the well, from 100 feet below the base of the fresh water extending up to the base of the fresh water in the well; and
    - C) All related surface production equipment is removed from the well site.
  - 3) Following completion of the above domestic use well transfer requirements, all regulatory oversight of the well by the Commission shall terminate and the well shall become the sole responsibility of the surface owner. The well shall be subject to any applicable state laws regarding private fresh water wells or domestic natural gas supply wells administered by state and or federal agencies other than the Arkansas Oil and Gas Commission.
- c) Domestic Use Transfer(s) prior to November 16, 2008.

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Any natural gas production well transferred to a surface owner for use as a domestic natural gas supply well prior to November 16, 2008, shall no longer be subject to the regulatory oversight by the Commission as long the natural gas from the well is used only on the property where the well is located and that any natural gas production from the well is not sold.

(Source: 1991 rule book; amended November 16, 2008)

### **RULE B-12 - CASING PULLER'S PERMITS AND BONDS**

Rule Repealed Effective November 11, 2007

### **RULE B-13 - ORGANIZATION REPORTS**

- a) Every person or entity engaged in any operation or activity regulated by the Commission, shall file with the Commission an organization report on a form prescribed by the Director, prior to engaging in the operation or activity. At a minimum, the form shall include:
- 1) Name of person or entity and type of operation(s) being conducted;
  - 2) An official mailing address to which all correspondence from the Commission is to be sent. If the official mailing address is to be sent to a registered agent for the person or entity, then the name of the registered agent must also be included;
  - 3) A list of official telephone number(s), facsimile number(s), and e-mail address(es) for which contact by the Commission may be made;
  - 4) The type of entity, and a list of all persons authorized to submit required forms, reports, and other documents for the entity;
  - 5) A statement that the person or entity is authorized to conduct business within the State; and
  - 6) Any other information deemed necessary by the Director.
- b) Every person or entity shall file an updated organization report with the Commission on or before July 1<sup>st</sup> of every calendar year.
- c) After any change occurs as to facts stated in the report filed, a supplementary report shall be filed with the Commission within thirty (30) days of any change.

(Source: 1991 rule book; amended January 22, 2009)

### **RULE B-14 - SURFACE EQUIPMENT**

Meter settings of adequate size to measure the gas efficiently for the purpose of obtaining gas-oil ratios shall be installed on the gas vent line of every separator, or a connection placed on end of flare line to permit measuring gas by means of orifice well tester. Wellhead equipment shall be installed and maintained in first-class condition so that static bottom hole pressures may be obtained at any time by duly authorized agents of the Commission. Valves shall be installed so that pressures can be readily obtained on both casing and tubing.

(Source: 1991 rule book)

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**RULE B-15 - CASING REQUIREMENTS**

- a. In all established fields, casing requirements shall be governed by the specific field rules for that field, and are not superceded by this rule.
- b. All fresh water sands shall be fully protected by the setting and cementing of surface casing to prevent the fresh water sands from becoming contaminated with oil, gas, or salt water. Surface casing shall be set and cement circulated to surface utilizing the pump and plug method. Cement shall be allowed to set a minimum of twelve (12) hours.

- 1) The minimum surface casing requirements for wildcat wells or wells not covered by field rules, in the counties of Ashley, Bradley, Calhoun, Columbia, Hempstead, Lafayette, Miller, Nevada, Ouachita, and Union, are as follows:

<b>TVD of well</b>	<b>Amount of Surface Casing</b>
0' - 3,000'	100'
3,001'- 4,000'	160'
4,001'- 5,000'	300'
5,001'- 6,500'	500'
6,501'- 7,500'	750'
7,501'- 8,500'	1,000'
8,501'-10,500'	1,250'
10,501' & below	1,500'

- 2) The minimum surface casing requirements for wildcat wells or wells not covered by field rules, in the counties of Crawford, Franklin, Johnson, Logan, Madison, Pope, Scott, Sebastian, Washington, and Yell, are as follows:

<b>TVD of Well</b>	<b>Amount of Surface Casing</b>
0'- 1,500'	100'
1,501'- 3,000'	200'
3,001'- 6,500'	500'
6,501'-10,000'	800'
10,001' & below	1,000'

- 3. The minimum surface casing requirements for wildcat wells or wells not covered by field rules, in the counties of Cleburne, Conway, Faulkner, Independence, Jackson, Searcy, Stone, Van Buren, and White, shall be to a depth of 500 feet or the top of the Paleozoic age rock sequence, whichever is greater.
  - 4. The minimum surface casing requirements for wildcat wells or wells not covered by field rules, in the counties of Arkansas, Lonoke, Monroe, Prairie, and Woodruff, shall be to a depth of 1,250 feet.
  - 5. The minimum surface casing requirements for wildcat wells or wells not covered by field rules, in the counties of Crittenden, Cross, Lee, Phillips and St. Francis, shall be to a depth of 2,000 feet.
- c. A producing string of casing shall be set at least to the top of the producing formation and shall be cemented so that the calculated fill, after allowing for twenty-five percent excess, will be at least two hundred fifty feet above the top of any productive interval. Cementing

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shall be done by the pump and plug method. Cement shall be allowed to set a minimum of twenty-four (24) hours before drilling the plug.

- d. The Director may grant exceptions to the above requirements if conditions exist that require more than these requirements for the purpose of safety or for the protection of fresh water sands and oil or gas bearing sands or may establish minimum surface casing requirements in future producing areas not covered by this rule.

(Source: 1991 rule book; amended September 16, 2006)

### **RULE B-16 - BLOW-OUT PREVENTION**

All proper and necessary precautions shall be taken for keeping the well under control during drilling operations, including but not limited to the use of blow-out preventers and high pressure fittings attached to properly anchored and cemented casing strings or maintain mud-laden fluid of sufficient weight to provide proper well control. Blow-out preventers shall be tested at regular intervals to insure proper operation.

(Source: 1991 rule book; amended October 15, 2006)

### **B-17 - DRILLING FLUID**

Rule Repealed Effective October 15, 2006

### **RULE B-18 - WELLHEAD FITTINGS**

Christmas tree fittings or wellhead connections shall have a working pressure or a test pressure in keeping with the expected depth of the well.

(Source: 1991 rule book)

### **RULE B-19 - DAYLIGHT HOURS**

Rule Repealed Effective October 15, 2006

### **RULE B-20 - CLEANING WELLS**

Rule Repealed Effective October 15, 2006

### **RULE B-21 - BOILER OR LIGHT PLANT**

Rule Repealed Effective October 15, 2006

### **RULE B-22 - RUBBISH OR DEBRIS**

Rule Repealed Effective November 11, 2007

### **RULE B-23 - TUBING**

a) All oil wells shall be equipped with, and produced through tubing. Bottom of tubing on flowing wells shall not be higher than top of producing interval. If tubing is perforated, the perforations shall not extend above the top of the producing interval.

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b) All dry gas wells are not required to produce through tubing, provided surface casing has been set in the well in accordance with applicable rules. If multiple gas zones are produced in the well, authority to commingle in accordance with General Rule D-18 shall be required.

(Source: 1991 rule book; amended October 15, 2006)

### **RULE B-24 - CHOKES**

All wells shall be equipped with adequate chokes, to properly control the flow thereof.

(Source: 1991 rule book)

### **RULE B-25 - SEPARATORS**

Rule Repealed Effective November 11, 2007

### **RULE B-26 - GENERAL LEASE OPERATING REQUIREMENTS**

a) Definitions for purposes of this rule

- 1) “ADEQ” means the Arkansas Department of Environmental Quality.
- 2) “Crude Oil Tank Battery” means a combination of saltwater and crude oil storage tanks and other vessels commonly used in the production and temporary storage of crude oil.
- 3) “Director” means the Arkansas Oil and Gas Commission Director of Production and Conservation.
- 4) “EPA” means the United States Environmental Protection Agency
- 5) “Gas Well Produced Fluids Storage Tanks” means tanks or other vessels commonly used for the temporary storage of fluids, produced with natural gas, prior to disposal.
- 6) “Lease” means a tract of land under agreement by an owner or person, for the purpose of producing oil and or gas and allocating that production for himself or the owners of the oil and gas rights under that tract of land.
- 7) “Permit Holder” shall mean the operator or person, who is duly authorized to develop a lease or unit as owner or through agreement and has the right to drill and produce from any field or reservoir and to appropriate the production for himself or others.
- 8) “Produced Fluids” shall mean those fluids produced or generated during the crude oil production and separation process and shall include crude oil, crude oil bottom sediment and shall include all waters regardless of chloride content associated with production of oil and or gas.
- 9) “RCRA” means Subtitle C of the Federal Resource Conservation Recovery Act of 1976.
- 10) “USDW” means Underground Source of Drinking Water which is defined as an aquifer or its portion which:
  - A) supplies any public water system; or

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- B) contains a sufficient quantity of groundwater to supply a public water system and currently supplies drinking water for human consumption or contains fewer than 10,000 mg/l total dissolved solids; and
- C) Which is not an exempted aquifer (see 40 CFR).

### b) Well Identification

- 1) Each oil and or gas well shall have a legible sign placed at the well showing the Permit Holder and the well name and number as shown on the permit as listed in the Commission records. If the lease is a single well lease, the well sign may be placed at the associated tank battery or lease entrance.
- 2) Every entrance from a public road to north Arkansas gas well sites shall have a legible sign placed at that entrance. The sign shall show the name of the Permit Holder, a list of all wells accessed by that entrance, the section, township and range, and a telephone number at which the Permit Holder or his authorized agent can be reached during an emergency.
- 3) For any newly drilled well, the required sign shall be posted within 45 days after cessation of drilling operations.
- 4) Any changes or corrections in the well information, required to be posted in accordance with this rule, shall be made to the well signs within sixty (60) days after the change occurs, or in the case of a transfer of well ownership, within sixty (60) days after the effective date of the transfer in the Commission records. All prior signs, if not correct, shall be removed.

### c) Crude Oil Tank Batteries

- 1) All existing and newly constructed tank batteries shall be registered with the Commission and assigned a Commission registration number. Registration shall be reported to the Commission utilizing information as reported on the existing AOGC Form 6 Monthly Producers Report.
- 2) All tank battery registrations, shall be transferred, at the time of associated well transfers, utilizing the approved notice of well transfer forms filed with the Commission.
- 3) Each tank battery shall have a legible sign in a conspicuous place on or near the crude oil storage tank(s). The sign shall show the name of the Permit Holder who holds the Commission permit to operate the lease or unit, the lease name, the section, township and range, and a telephone number at which the Permit Holder or his authorized agent can be reached during an emergency.
- 4) All tank batteries consisting of tanks containing produced fluids or crude oil storage tanks or containing tanks equipped to receive produced fluids, shall be surrounded by containment dikes or other containment structures as may be appropriate under the circumstances, as approved by the Director. All containment dikes or other approved structures shall be constructed or installed in accordance with sub-paragraph (e) below.
- 5) Tank batteries constructed after the effective date of this rule, shall not be located:

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- A) within 200 feet of an existing occupied habitable dwelling, unless the current owner of the structure has provided a written waiver consenting to the construction closer than 200 feet, in which case the tank battery shall be completely fenced to prevent unauthorized access; however, in no event may a tank battery may be constructed closer than 100 feet to an existing habitable dwelling; or
  - B) within 300 feet of a school, hospital or other type of public use building as defined in Arkansas Fire Prevention Code Section 3406.3.1.3.1; or
  - C) within 300 feet of a stream or river designated as an Extraordinary Resource Water (ERW), Natural and Scenic Waterways or Ecological Sensitive Waterbodies as defined by APC&E Regulation 2, or within 200 feet of other streams, waterways, rivers, ponds, lakes, wetlands (unless approved by other appropriate governmental agencies), or other bodies of water (as indicated by a blueline designation on a 7.5 minute USGS Topographic Map), unless the Permit Holder utilizes additional containment measures other than the required containment specified in sub-paragraph (e) below, as approved by the Director.
- 6) Tanks or any part of such tanks shall not be buried below the ground surface.
  - 7) All tanks shall be maintained in a leak-free condition.
  - 8) All open top tanks shall be covered with bird netting, or other system designed to keep birds and flying mammals from landing in the tank.
- d) Gas Well Produced Fluids Storage Tanks
- 1) Tanks or any part of such tanks shall not be buried below the ground surface.
  - 2) All tanks shall be maintained in a leak-free condition.
  - 3) All open top tanks shall be covered with bird netting, or other system designed to keep birds and flying mammals from landing in the tank.
  - 4) Tanks constructed after the effective date of this rule, shall not be located:
    - A) within 200 feet of an existing occupied habitable dwelling, unless the current owner of the structure has provided a written waiver consenting to the construction closer than 200 feet, in which case the tank battery shall be completely fenced to prevent unauthorized access; however, in no event may a tank battery may be constructed closer than 100 feet to an existing habitable dwelling; or
    - B) within 300 feet of a school, hospital or other type of public use building as defined in Arkansas Fire Prevention Code Section 3406.3.1.3.1; or
    - C) within 300 feet of a stream or river designated as an Extraordinary Resource Water (ERW), Natural and Scenic Waterways or Ecological Sensitive Waterbodies as defined by APC&E Regulation 2, or within 200 feet of other streams, waterways, rivers, ponds, lakes, wetlands (unless approved by other appropriate governmental agencies), or other bodies of water (as indicated by a blueline designation on a 7.5 minute USGS Topographic Map), unless the Permit

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Holder utilizes additional containment measures other than the required containment specified in sub-paragraph (e) below, as approved by the Director.

- 5) All tanks containing produced fluids or equipped to receive produced fluids shall be surrounded by containment dikes or other containment structures as may be appropriate under the circumstances, as approved by the Director. All containment dikes or other approved structures shall be constructed or installed in accordance with sub-paragraph (e) below.
- e) Containment Dikes or Other Containment Structures
- 1) All Crude Oil Tank Batteries and Gas Well Produced Fluids Storage Tanks shall be surrounded by containment dikes or such other structure as may be appropriate under the circumstances, as approved by the Director to prevent waste, protect life, health or property, unless an exception is granted by the Commission following notice and hearing.
  - 2) Required containment dikes or other approved structures shall be designed to have a capacity of at least 1½ times the largest tank the containment dike or approved structure surrounds.
  - 3) The natural or man-made material utilized for the construction of the required containment dikes or other approved structures and the natural or man-made material used to line the bottom of the containment area shall be sufficiently impervious so as to contain fluids and resist erosion.
  - 4) Vegetation on the top and outside surface of containment structures shall be properly maintained so as to not pose a fire hazard.
  - 5) The area within the containment dike or other approved containment structure shall be kept free of excessive vegetation, stormwater, produced fluids, other oil and gas field related debris, general trash, or any flammable material. Drain lines installed through the firewall, for the purpose of draining stormwater, shall have a valve installed which shall remain closed and capped when not in use. Any fluids collected, spilled or discharged within such containment structures shall be removed as soon as practical, using the following proper disposal methods:
    - A) Stormwater, which has not been mixed with non-exempt RCRA waste as defined by the EPA, may be drained from the containment structure provided the following conditions are met:
      - i) the chloride content shall not exceed applicable state water quality standards.
      - ii) there must be no visible evidence of hydrocarbons or hydrocarbon sheen present;
      - iii) the discharge shall only take place during daylight hours;
      - iv) a representative of the Permit Holder must be present during discharge; and
      - v) the Permit Holder shall maintain a record of each stormwater discharge, occurring in the previous 6 month period, and which shall be available for review upon request by Commission staff. The record shall indicate the location, quantity, chloride content, presence of any hydrocarbons (sheen), and date of discharge.

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- B) Produced fluids which have not been mixed with non-exempt RCRA waste as defined by the USEPA, may be recycled through the production equipment or removed from the containment structure and disposed in a properly permitted Class II UIC Well.
- C) All stormwater and produced fluids which have been mixed with non-exempt RCRA waste as defined by the USEPA shall be removed and disposed in accordance with applicable Pollution Control and Ecology Commission regulations, as administered by ADEQ.
- D) Crude oil bottom sediments (BS&W) may be:
  - i) applied on oil field lease roads under the following conditions:
    - a) application shall be in such a manner as to avoid runoff onto immediately adjacent lands or into waters of the State; and
    - b) immediately following completion of the application, all liquid fractions shall be immediately incorporated into the road bed with no visible free-standing oil; and
    - c) no lease road shall be oiled more than twice a year; and
    - d) no lease road shall be oiled during precipitation events; and
    - e) the applied BS&W shall not have a produced water content greater than ten percent (10%) free water by volume; or
  - ii) injected into an inactive oil and gas production well:
    - a) which has been equipped with tubing and packer, for the purpose of said injection, the packer to be set within the production casing, at least fifty (50) feet below the top of the production casing cement, but no less than five hundred (500) feet below the base of the deepest USDW, and
    - b) injection of the BS&W shall not exceed 45 days, after which time the well shall be immediately plugged in accordance with General Rule B-8, and
    - c) if the Director determines through field observations that the injection activities are endangering the USDW, the injection activities shall cease until the condition is corrected.
- 6) Any residual produced fluids remaining within the containment dike, after removal, as required in subsection (e) (5) above, shall be remediated in place in accordance with General Rule B-34.
- 7) Any spill, leak or discharge of produced fluids escaping from a containment dike shall be reported and remediated in accordance with General Rule B-34.

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- 8) When a Crude Oil Tank Battery, Gas Well Produced Fluids Storage Tank or a gas well separator is removed, the Permit Holder shall remove all above ground piping and flowlines coming into said tanks or separator and cap all below ground piping and flowlines, level and grade soil portion of the containment dikes, remove from site all non-soil containment structure construction material, and remediate all hydrocarbon contaminated soil at tank or separator site in accordance with General Rule B-34.
- f) Liquid Hydrocarbon Flowlines
- 1) All flowlines used in the production of liquid hydrocarbons, constructed after the effective date of this rule, shall be buried at least twenty-four (24) inches below the ground surface. Flowlines may be exempt from these burial requirements upon approval of the Director, in the following circumstances:
- A) the topographical features, land uses or ground conditions prevent the efficient burial of flowlines; or
  - B) the suspected presence of numerous old abandoned flowlines, in old producing fields, render the burial of new lines impractical or which will significantly increase the likelihood of causing the discharge of crude oil from the old lines; or
  - C) the terms of the oil and gas lease or surface owner agreement, prohibit the burial of flowlines; or
  - D) the flowlines are installed or placed within the lease road right of way; or
  - E) the flowlines from the well to the tank battery is entirely within the confines of the original drilling location.
- 2) All flowlines which cross and are not buried under natural drainage features such as creeks, streams, rivers or intermittent streams or ravines shall be constructed in such fashion as to bridge the drainage feature to protect the flowlines from damage due to lack of adequate support, resulting in potential discharge and violation of the state water quality standards.
- 3) The Director shall have the authority to require active flowlines existing on the effective date of this rule to be replaced, buried or constructed in accordance with subsection (2) above or to require the visible aboveground inactive or abandoned portions of those abandoned flowlines to be removed and the open ends sealed, if the Director finds, based on field observation, that the flowlines constitute a hazard to public safety or can reasonably be expected to cause damage to the environment through leaks, spills or discharges.
- 4) No flowlines transporting produced water shall have an outlet valve installed for the purpose of discharging produced water between the place or well of origin and the authorized storage or disposal point. A specialized valve, installed for the purpose of venting trapped air, following flowline maintenance is permissible.
- 5) Any spill, leak or discharge from a flowline shall be reported and remediated in accordance with General Rule B-34.
- g) Natural gas production lines and gathering lines shall be installed and operated in accordance with General Rule D-17 – General Rule Relative to Establishing An Effective And Efficient

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Procedure For The Regulation Of Production Field Lines For Natural Gas As Well As Safety Standards or other applicable Commission rules.

### h) Power Lines

- 1) All power lines installed after the effective date of this rule, shall be installed in such a manner as to prevent contact by vehicle or pedestrian travel.
- 2) The Director shall have the authority to require power lines existing on the effective date of this rule, to be in compliance with sub-paragraph (h) (1) above, if the Director finds, based on field observation, that the power lines constitute a hazard to public safety.

### i) Equipment Use and Storage

- 1) All well head areas shall be kept free of excessive vegetation.
- 2) All production equipment, including but not limited to separators, heater treaters, piping, compressors, injection pumps, and chemical containers, shall be kept free of vegetation and maintained at all times in a safe and good working condition.
- 3) Used refined oil from any production equipment such as pumpjacks, injection pumps and compressors shall not be improperly disposed or placed in storage tanks containing produced water. All used refined oil shall be disposed in accordance with Arkansas Pollution Control and Ecology Commission Regulation 23, Section 279.
- 4) Excess usable or operable production equipment, not integrally related to production activities on the lease, established drilling unit, or other unitized production area shall not be stored on any surface property unless written consent from the current surface owner where the production equipment is located, has been granted to the Permit Holder to store such equipment, unless the equipment has been designated by the Permit Holder to be used in the future on that lease, established drilling unit, or other unitized production area and the equipment and storage area, which shall be limited to an area in close proximity to existing well site(s) or production area(s), and are maintained and kept free of excessive vegetation.
- 5) Other trash and debris, including but not limited to, abandoned, unusable or unrepairable, junk tanks, treaters, tubulars, injection pumps, pump jacks, concrete, above ground piping and flowlines, and any other general junk equipment or machinery shall not be stored on any surface property except that owned by the Permit Holder. Removed trash and debris shall be disposed in accordance with applicable ADEQ or other state agency regulations.

### j) Production Pits

- 1) "Production Pit", as used in this Section, is an earthen surface impoundment, whether a man-made excavation or a diked area which was or currently is used for temporary storage of produced fluids prior to disposal.
- 2) Construction of production pits, other than those pits previously authorized by Commission Orders are prohibited.
- 3) All other production pits in existence as of the effective date of this rule shall cease to be used on the effective date of this rule and closed within 90 days after the effective date of

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this rule in a manner prescribed by the Commission and in accordance with all applicable state laws and regulations, unless exempted in accordance with subsection (4) below.

- 4) Any production pit in existence as of the effective date of this rule, may not be subject to closure in accordance with subsection (j) (3) above if:
- A) the pit is no longer used for temporary storage of produced fluids; and
  - B) the water quality in the pit is less than 1500 TDS with no visible sheen of oil; and
  - C) a written, notarized authorization from the current surface owner has been received by the Director requesting the pit not be closed and demonstrating an acceptable alternative use for the pit; and
  - D) in determining not to require the pit be closed, the Director shall:
    - i) review the current location of the pit relative to any ongoing production operations in the area; and
    - ii) review the proposed alternative use relative to public health and safety considerations and potential use for agricultural, recreational or wildlife habitat purposes.
  - E) If the Director determines, based on a review of the information submitted by the operator and surface owner, the pit is not exempted, the pit shall be closed, within six (6) months, by the operator, in accordance with subsection (3) above.

k) **Leaking Permitted Well**

Where any oil and gas reservoir fluids or salt waters or other produced fluids are potentially leaking into the USDW as determined by geologic and field investigation or are leaking onto the surface, through a permitted well transferred to the Permit Holder, the permitted well shall be plugged by the Permit Holder. Pending plugging of the well, all injection wells within a 1/4 mile radius of the leaking drill hole shall be shut-in until the well is plugged.

l) **Leaking Previously Plugged Well**

Where any oil and gas reservoir fluids or salt waters are potentially leaking into the USDW or to the surface as determined by geologic and field investigation, through a well plugged under applicable Commission rules, the well shall be replugged by the original Permit Holder responsible for plugging the leaking well. If the original Permit Holder is no longer in existence or cannot be located, the well shall be eligible for plugging through the Arkansas Orphan and Abandoned Well Plugging Fund. Pending plugging of the well all injection wells within a 1/4 mile radius of the leaking well shall be shut-in until the leaking well is plugged.

(Source: 1991; amended July 13, 2003; amended October, 14, 2007; amended August 17, 2008)

### **RULE B-27 - SALT WATER**

All wells producing two percent (2%) or more salt water in the controlled fields must be reported monthly by their owner or operator to the Commission "Well Status Report and Gas Oil Ratio."

(Source: 1991 rule book)

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### **RULE B-28 - EMULSION, B.S., AND WASTE OIL**

Rule Repealed Effective November 11, 2007

### **RULE B-29 - CASING TESTS**

Rule Repealed Effective October 15, 2006

### **RULE B-30 - DEVIATION TESTS**

The maximum point at which a well penetrates the producing formation shall not unreasonably vary from the vertical drawn from the center of the hole at the surface. Deviations in excess of the following shall be deemed to be unreasonable: More than 3 degrees from the vertical drawn from the center of the hole at the surface.

The Commission shall have the right to make, or to require the operator to make a directional survey of the hole, under the following circumstances: (a) in all cases where the operator has proposed to deliberately drill a directional well from an exceptional surface location and/or to an exceptional bottom hole location; (b) prior to a permit being issued, if an off-set operator requests a directional survey and agrees in writing to pay all costs and expenses of such survey and to assume liability for all risks associated with the survey and further posts a bond in sufficient sum as determined by the Commission as security against all costs and risks associated with the survey or, (c) at any time, by order of the Commission, if the Commission is first presented with substantial evidence that it is likely that the well was drilled other than at the location permitted or that the well has deviated in the direction of a unit boundary to a bottom location which would necessitate an increased penalty upon the well's production allowable. The Commission shall have the continuing jurisdiction to assess the expense and risk of such survey between the operator and any opposing party.

(Source: 1991 rule book; amended July 13, 2003)

### **RULE B-31 - REPORT OF RESULT OF SHOOTING, PERFORATING OR TREATING WELL**

Rule Repealed Effective October 15, 2006

### **RULE B-32 - VACUUM PUMPS PROHIBITED**

The use of vacuum pumps or other devices for the purpose of putting a vacuum on any gas or oil-bearing stratum is prohibited except in fields using vacuum pumps on January 1, 1939. The Commission may upon application permit the use of vacuum pumps in fields which are practically depleted.

(Source: 1991 rule book)

### **RULE B-33 - PRODUCTION PRACTICE**

Naturally flowing wells shall be produced at a continuous, uniform rate as far as is practicable, in keeping with the current allowable, unless the Commission specially permits stop-cocking to reduce the gas-oil ratio or overcome logging up.

(Source: 1991 rule book)

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**RULE B-34 - NOTICE OF FIRE, BREAKS, OR BLOW-OUTS AND REMEDIATION OF ASSOCIATED SPILLS OF CRUDE OIL AND PRODUCED WATER**

- a) Definitions for purposes of this rule
  - 1) “Permit Holder” shall mean the operator or person, who is duly authorized to develop a lease or unit as owner or through agreement and has the right to drill and produce from any field or reservoir and to appropriate the production for himself or others.
  
- b) Notification
  - 1) Any Permit Holder of an oil, gas and brine production, UIC Class II, and Class V (brine disposal) well or an owner or operator of tanks, storage tanks, or other receiving and storage receptacles into which crude oil is produced, received, or stored, or through which oil is transported in flowlines, shall immediately, but not more than twenty-four (24) hours, notify the Commission Regional Office, where the event has occurred, by telephone or facsimile concerning all fires, blow-outs, spills, leaks or discharges in excess of one (1) barrel of crude oil or five (5) barrels of produced water, which occur at these facilities.
  - 2) All notices of fires, blowouts, spills, leaks, or discharges provided to the Commission Regional Office, shall include the name of the operator responsible and the location of the fire, blow-out, spill leak, or discharge by providing the Section, Township, Range and property, lease, or unit, name. Such report shall also specify what emergency steps have been taken or are in progress to remedy the situation reported.
  - 3) If the reported fire, blow-out, spill, leak, or discharge results in a spill or discharge in excess of one (1) barrel of crude oil and or five (5) barrels of produced water outside the containment, the Permit Holder shall also provide the following in the required written incident report, on a form prescribed by the Director:
    - A) the amount of crude oil and produced water spilled or discharged,
    - B) the areal extent of the spill or discharge,
    - C) the cause of the spill or discharge, and
    - D) the proposed remediation efforts.
  - 4) Spills or discharges from interstate and intrastate pipeline (downstream from custody transfer), or from refined product pipelines are not covered by this rule and are under the jurisdiction of the Arkansas Department of Environmental Quality (ADEQ).
  - 5) All crude oil and produced water spills or discharges, regardless of amount, which enter waters of the state as defined in Ark. Code Ann. § 8-4-102 shall be reported immediately to the ADEQ. That portion of the spill which entered waters of the state shall be under the jurisdiction of the ADEQ for remediation and enforcement purposes.
  
- c) Crude Oil Spill Remediation Requirements
  - 1) All crude oil spills that occur after the effective date of this rule, regardless of amount, from wells, flowlines, tanks, pits or containment dikes are subject to this rule.

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- 2) The Permit Holder is required to initiate the following emergency response procedures for all crude oil spills immediately after a spill has occurred, but not more than 24 hours after the spill:
  - A) Contain spilled crude oil using earthen dikes, booms and other containment measures to minimize the amount of area affected by the spill.
  - B) If a spill enters surface waters, the spill shall be contained with booms and/or underflow dams and removed as expeditiously as possible. Further remediation requirements shall be determined by ADEQ in accordance with sub-paragraph (a) (5) above.
  - C) The cause of spill shall be repaired immediately.
  - D) Impounded free oil shall be picked up and put in lease storage tanks or removed from the site and recycled.
- 3) Remaining oil on the land surface shall be removed using absorbent material, which shall be handled as follows:
  - A) All non-organic/non-biodegradable absorbent materials shall be removed from the site and disposed of at an ADEQ permitted waste treatment or disposal facility or other disposal options as allowed by applicable state law or regulation.
  - B) On-site disposal of organic/biodegradable absorbent materials, such as straw and peat moss, may be disposed through land spreading over the area affected by the initial spill and remediated in accordance with sub-paragraphs (4) (A) thru (D) below.
- 4) Contaminated soil area affected by a spill may be remediated in place and shall, within 10 days, at a minimum be:
  - A) fertilized with 13-13-13 fertilizer or an amount of other acceptable fertilizer sufficient to treat the soil with 0.5 lbs per square yard; and
  - B) limed with sufficient agricultural grade lime over the affected area in order to maintain a pH of between 6-8; if the pH of the soil/oil mixture is less than 6, additional lime shall be incorporated to increase pH above 6; and
  - C) tilled to a depth of at least 4 inches but no greater than 12 inches to create a soil and crude oil mixture that contains less than 5% total petroleum hydrocarbon (TPH) following the completion of the initial tilling; and
  - D) watered to maintain soil moisture sufficient to promote plant growth (if extremely dry soil conditions exist); and
  - E) stabilized to minimize erosion and run-off of stormwater to prevent violation of applicable water quality standards.
  - F) If the soil in the affected area is frozen or previously saturated due to rain or snow melt, prohibiting compliance with sub-paragraphs (A) thru (E) above, the Permit Holder shall stabilize the area to prevent any surface run-off of crude oil

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from leaving the affected area until conditions permit compliance with sub-paragraphs (A) thru (E) above.

- G) The soil affected by the spill must contain less than 1% TPH within 12 months after the date of the spill.
  - H) The Director may require additional remediation action to be taken by the operator, which may include flushing of the area with freshwater (which shall be collected and disposed in a UIC Class II well), the addition of organic material (e.g., peat moss, straw), chemical treatment, additional disking of the soil or soil and absorbent material removal if the soil and/or absorbent material within the spill area cannot meet the TPH standard specified in sub-paragraph (c)(4)(C) above.
  - I) Contaminated soils removed from the site for off-site disposal shall be disposed of at an Arkansas Department of Environmental Quality permitted landfill permitted to receive such waste other ADEQ permitted surface waste treatment or disposal facility or as required by applicable state law or regulation.
- 5) If a spill enters a public road ditch, visible crude oil-contaminated soil shall be removed from the roadside ditch and:
- A) removed from the site in accordance with sub-paragraph (c)(4)(I) above; or
  - B) incorporated into the non-road ditch area of the spill and remediated in accordance with sub-paragraph (c)(4)(A) thru (E) above.
- 6) The Permit Holder shall be required to submit on request, or within 15 days after the spill occurred, on a form prescribed by the Director, the following information:
- A) a topographic map showing the areal extent of the spill and the proximity of surface waters;
  - B) the type of soil and current land use;
  - C) the TPH content in the spill area;
  - D) explanation of the cause of the spill, and planned efforts to prevent and minimize the effects of future spills at the site.
  - E) Additional reports are required each 90 days until the spill remediation is completed and approved by the Director.
- 7) The Commission after notice and hearing shall have the authority to amend the above remediation methodology, or approve alternative remediation methodologies if those methods achieve the same or higher standard of spill remediation.
- d) Produced Water Spill Remediation Requirements
- 1) All spills of produced water, which occur after the effective date of this rule, from wells, flowlines, pits, tanks or containment dikes, shall immediately, but not more than 24 hours be contained using earthen dikes and other containment measures to minimize the amount of area affected by the spill.

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- 2) All impounded produced water shall be picked up and removed from the site for disposal into an approved Class II UIC well, or recycled through the Permit Holder's production process.
- 3) The affected area shall be limed with at least 50 lbs. of agricultural grade lime per 100 square feet of affected area and tilled to a depth of at least 4 inches.
- 4) Based on the quantity and areal extent of the produced water spill, the proximity of the spill area to surface water features, the nature of the soil and land use of the area and any impact to public safety, the Director may require additional remediation action to be taken by the Permit Holder. These additional actions may include flushing of the area with freshwater (which shall be collected and disposed in a permitted Class II well), the addition of organic material (e.g., peat moss, hay, straw), additional chemical treatment, additional disking the soil, or soil removal. The operator shall be required to continue these corrective actions until the spill remediation efforts are deemed complete by the Director based on site specific conditions.

(Source: 1991 rule book; amended September 17, 2007)

### **RULE B-35 - DETERMINING AND NAMING COMMON SOURCES OF SUPPLY**

Wells shall be classified as to the common sources of supply from which they produce and common sources of supply shall be determined and named by the Commission, provided, that in the event any person is dissatisfied with any such classification or determination, an application may be made to the Commission for such classification or determination, deemed proper and the Commission will hear and determine the same.

In naming the common sources of supply, preference shall be given to common usage and geographical names. Separate common sources of supply within the same area shall preferably be named according to the producing formation.

(Source: 1991 rule book)

### **RULE B-36 - TAKINGS TO BE RATABLE**

Every person, now or hereafter engaged in the business of purchasing and selling crude oil or natural gas in this State, shall purchase, without discrimination in favor of one producer against another, or in favor of any one source of supply as against another. For purposes hereof, a distinction shall exist between "crude oil" and "natural gas" purchased from "oil wells" and "gas wells" as those wells are respectively defined within Rule A-4 and takings shall be deemed to be ratable when purchases are made without discrimination between wells within each such separate classification.

(Source: 1991 rule book)

### **RULE B-37 - DUAL COMPLETION OF WELLS**

- a) A Permit Holder may elect to complete a well in such a manner as to permit the production of oil or gas from one formation through the tubing and oil or gas from a separate formation through the annular space between the tubing and casing, subject to the following conditions:
  - 1) That each well dually completed shall be regarded as a separate and distinct Well; and

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- 2) That the production shall be taken and measured separately; and
  - 3) That all rules, regulations and orders governing individual oil or gas wells shall be strictly adhered to.
- b) A Permit Holder may file an application with the Director to complete a gas well for production of dry gas from a formation through the annular space between the production casing and the surface casing, provided the following conditions are met:
- 1) Each application shall be made on a form prescribed by the Director and shall include proof of written notice to all offset operators or owners, as defined in Ark. Code Ann. § 15-72-109, in governmental sections that are contiguous to the lease upon which uncontrolled gas is to be produced; or if controlled, then proof to all offset operators or owners, as defined in Ark. Code Ann. § 15-72-109, having the right to produce from the same shallow formation in the adjacent governmental sections.
  - 2) Surface casing in the subject well has been set and cemented to a depth of as required by General Rule B-15; and
  - 3) The proposed zone to be produced would otherwise not be economic due to limited production potential.
  - 4) Any offset operator or owner noticed in accordance with subparagraph (b)(1) above shall have the right to object to the granting of such application within fifteen (15) days after receipt of the application by the Commission.
  - 5) If an objection is received within fifteen (15) days after receipt of the application by the Commission, or if the Permit Holder does not satisfy all requirements of this paragraph (b), the application shall be denied. If an application is denied the Permit Holder may request to have the matter placed, in accordance with established procedures, on the docket of a regularly scheduled Commission hearing.
  - 6) If no objection is received by the Commission within fifteen (15) days after receipt of the application by the Commission, and the Permit Holder is in compliance with all requirements of this paragraph (b), the application shall be approved.

(Source: 1991 rule book; amended December 16, 2007)

### **RULE B-38 - ESTABLISHMENT OF FIELD RULES**

- a) An application for the purpose of establishing field rules, regulations, and well spacing and drilling units for a new reservoir or pool, except within the covered lands specified in General Rule B-43 or General Rule B-44, shall be submitted, in accordance with General Rule A-2, A-3, and applicable hearing procedures, to the Commission within six months after the initial completion of the discovery well in a pool or reservoir or after the drilling of three wells, whichever occurs first. Prior to receipt of an application, no further permits to drill more than three wells in the same source of supply in the exploratory area as defined by the Director shall be issued.
- b) Upon receipt by the Commission of an application for public hearing to establish field rules, regulations, well spacing, and drilling units for a reservoir, additional permits beyond the initial three wells may be issued to that reservoir or pool, provided the well permit applications comply

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with the drilling unit size and well location provision as contained in the application. Permits may continue to be issued until a hearing is held and a decision rendered.

- c) The Commission may, after notice and hearing in accordance with General Rule A-2, A-3 and other applicable hearing procedures, grant exceptions to this rule, provided such exceptions will create neither waste nor hazards conducive to waste.

(Source: 1991 rule book; amended September 16, 2006; amended August 17, 2008)

### **RULE B-39 - PRE-HEARING CONFERENCE REQUIRED FOR PROPOSED FIELD-WIDE UNITIZATIONS**

Prior to the filing of a Petition for a public hearing to consider the need for the operation as a unit of an entire pool, or any portion thereof, pursuant to the provisions of Acts 1951, No. 134, the petitioner shall have a pre-hearing conference with the Commission (or its delegated representatives) for purposes of reviewing the proposed plan of unitization including the information required by Subsection C-1 Ark. Stats. 53-115 together with those additional proposed provisions and geological and engineering data which the Commission determines to be appropriate for preliminary review before the execution of the Unit Agreement in order to prevent waste and protect the correlative rights of all interested parties.

(Source: 1991 rule book)

### **RULE B-40 - AUTHORIZATION FOR DIRECTOR OF PRODUCTION AND CONSERVATION TO ADMINISTRATIVELY APPROVE APPLICATIONS FOR EXCEPTIONAL WELL LOCATIONS**

- a) The Director of Production and Conservation or his designee is authorized to issue a Drilling Permit for a well proposed to be drilled, is being drilled, or has been drilled, but prior to commencement of production, at a location within an established drilling unit, which fails to conform to the drilling unit setback distance requirements as measured from the approximate center of the wellbore to unit boundary lines under applicable field rules or Commission general rules. This rule is only applicable:
- (1) To dry gas wells drilled vertically or directionally and does not apply to any type of dry gas well drilled as a wildcat well, as defined in General Rule B-3, or for dry gas wells drilled in Exploratory Units established by Commission order; or
  - (2) To oil or gas condensate wells drilled in standard drilling units from which the well setbacks are defined by distance from a drilling unit boundary defined by a legal land description and does not apply to drilling units where well setbacks are established by other methods, or for wildcat wells or for wells in Exploratory Units established by the Commission; or
  - (3) To oil wells located in uncontrolled fields where the standard well setback as specified in General Rule B-3, apply to lease lines rather than drilling unit lines.
- b) In each such instance in which a permit is issued, except in uncontrolled fields which are not subject to an allowable, a reduction (penalty) in the allowable to which such well would otherwise be entitled, under the provisions of the applicable field rules or other general well spacing rules, shall be assessed by multiplying a fraction, the numerator of which shall be the distance expressed in feet between the location of such proposed well and the boundary of the drilling unit in which the well is to be drilled and the denominator of which shall be the distance

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expressed in feet at which wells within such field and/or drilling unit are otherwise required to be located. If the proposed location encroaches upon more than one boundary of said unit, then the penalty to be imposed upon the production allowable shall be cumulative of the penalties from both boundaries as described in sub section 1) below.

- 1) If the proposed location encroaches upon more than one boundary as specified in section (b) above, the reduction in the allowable shall be calculated as follows:

First boundary encroachment expressed as:

$$\frac{\text{setback footage specified by rule (minus)(-) actual footage of proposed well from unit boundary (divided by)(\div)}{\text{setback footage specified by rule, plus (+)}}$$

Second boundary encroachment expressed as:

$$\frac{\text{setback footage specified by rule (minus)(-) actual footage of proposed well from unit boundary (divided by)(\div)}{\text{setback footage specified by rule = penalty factor}}$$

Then:

$$\text{penalty factor (x) full calculated allowable (MCF or bbl) = amount allowable reduced (MCF or bbl)}$$

Then:

$$\frac{\text{full calculated allowable (MCF or bbl) (minus)(-) amount allowable reduced (MCF or bbl)}}{\text{allowable (MCF or bbl)}}$$

- 2) Each such application for an exceptional location shall be submitted on a form prescribed by the Director of Production and Conservation, accompanied by an application fee of \$500.00 and include the name and address of each owner, as defined in A.C.A. § 15-72-102(9), within the drilling unit in which the proposed well is to be drilled and within the drilling units offsetting the boundary line or lines, or in the case of wells in uncontrolled fields within the boundaries of mineral lease lines and the offsetting lease(s), which shall be encroached upon by the proposed exceptional well location.
- 3) Concurrently with the filing of an application in accordance with this rule, the applicant shall send to each owner specified in sub-section 2) above a notice of the application filing and verify such mailing by affidavit, setting out the names and addresses of all owners and the date(s) of mailing.
- 4) Any owner noticed in accordance with sub-section 2) shall have the right to object to the granting of such application within fifteen (15) days after the receipt of the application by the Commission. Each objection must be made in writing and filed with the Director. If a timely written objection is filed as herein provided, then the applicant shall be promptly furnished a copy of such objection and the application shall be denied. If the application is denied under this subsection, the applicant may request to have the application placed, in accordance with General Rule A-2, A-3, and other applicable hearing procedures, on the docket of a regularly scheduled Commission hearing for a Commission determination, except that no additional application fee is required.
- 5) An application may be referred to the Commission for determination when the Director: (1) deems the penalty to be imposed upon the allowable for such well, calculated as herein provided, to be inadequate to offset any advantage which the applicant may have over any other producer, as defined in A.C.A. § 15-72-102(8), by reason of the drilling of

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the well at such exceptional location, or (2) deems it necessary that the Commission make such determination for the purpose of protecting correlative rights of all parties. Promptly upon such determination, and not later than fifteen (15) days after receipt of the application, the Director shall give the applicant written notice, citing the reason(s) for denial of the application under this rule and the referral to the full Commission for determination.

- 6) Applications for exceptional locations resulting from directional drilling shall be considered for administrative approval in accordance with this rule, provided, that no allowable shall be authorized until the Commission has been furnished a bottom hole directional survey for each common source of supply for which an allowable is requested. In all such cases where directional surveys are made available, the distance, of the mid-point perforations, for each common source of supply in a directional well, from the drilling unit boundary shall be used in calculating the allowable.
  - 7) If the Director has not notified the applicant of the determination to refer the application to the Commission within the fifteen (15) day period in accordance with the foregoing provisions, and if no objection is received at the office of the Commission within the fifteen (15) days as provided for in sub-section 4), the application shall be approved and a Drilling Permit issued.
- c) For dry gas wells, as specified in sub-section a) 1) above, an alternative to a reduction in the allowable (penalty) method, as outlines in Section b) above, may be requested if each affected drilling unit has been previously integrated, by Commission Order or is 100% leased, and is currently held by production, and if all the working interest owners in each affected drilling unit agree, in writing, to share the proceeds from a well which encroaches upon the drilling unit boundary. The below methodology for determining percentages for the sharing of costs, production and royalty among the affected drilling units, may be administratively authorized by the Director or his designee. The method for determining the percentages for sharing the costs of and the proceeds of production from one or more separately metered wells shall be as follows:
- 1) For vertical or directionally drilled wells, the acreage within an agreed upon area extending out from the perforated interval, as defined in General Rule B-3, shall be calculated for each such separately metered well (the "calculated area"). The calculated area shall be based upon the estimated drainage area of the perforated interval.
  - 2) Each calculated area shall be allocated and assigned to each drilling unit according to that portion of the calculated area occurring within each drilling unit.
  - 3) Each such application for utilizing the above methodology shall be submitted on a form prescribed by the Director of Production and Conservation, accompanied by an application fee of \$500.00 and include the name and address of each owner, as defined in A.C.A. § 15-72-102(9), within each of the drilling units in which the proposed well is to be drilled and/or completed and which contains a portion of the calculated area as defined in sub-section c) 1) above.
  - 4) Concurrently with the filing of an application utilizing the above methodology, the applicant shall send in written authorization from each owner specified in sub-section c) 3) above.
  - 5) An application may be referred to the Commission for determination when the Director deems it necessary that the Commission make such determination for the purpose of protecting correlative rights of all parties. Promptly upon such determination, and not

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later than fifteen (15) days after receipt of the application, the Director shall give the applicant written notice, citing the reason(s) for denial of the application under this rule and the referral to the full Commission for determination.

- 6) If the Director has not notified the applicant of the determination to refer the application to the Commission within the fifteen (15) day period in accordance with the foregoing provisions, and if no objection is received at the office of the Commission within the fifteen (15) days as provided for in subsection (c)(5), the application shall be approved and a drilling permit issued.
- 7) Upon receipt of the drilling permit, the applicant shall give the other working interest parties written notice that the drilling permit has been issued. The working interest parties, who have not previously made an election, shall have fifteen (15) days after receipt of said notice within which to make an election to participate in the well or be deemed as electing non-consent and subject to the non-consent penalty set out in the existing Joint Operating Agreement(s) covering their respective drilling unit.
- 8) Following completion of the well and prior to the issuance by the Commission of the Certificate of Compliance to commence production, the final location of the perforated interval shall be submitted to the Commission to verify the proposed portion of the calculated area occurring within each drilling unit as specified in sub-section c) 1) above.

(Source: 1991 rule book; amended (Order 1-94(4)) January 25, 1994; amended July 17, 2006; amended December 16, 2007; amended August 17, 2008)

### **RULE B-41 - RULE FOR OPERATION IN HYDROGEN SULFIDE (H<sub>2</sub>S) AREAS**

Each operator who conducts operations in known areas of Hydrogen Sulfide (H<sub>2</sub>S) with minimum concentrations of fifteen (15) ppm under atmospheric conditions or one hundred (100) ppm or more in the gas stream shall provide safeguards to protect the general public from the harmful effects of Hydrogen Sulfide (H<sub>2</sub>S). The Director of the Arkansas Oil and Gas Commission shall determine the areas covered by this rule.

Operations shall include drilling, completion, workover, producing, gathering, and storage of hydrocarbon fluids, natural gas and fluids produced in association with Bromine extraction. These operations fall under these guidelines only if they contain gas in the system which has Hydrogen Sulfide (H<sub>2</sub>S) as a constituent of the gas.

#### **DEFINITIONS**

**Radius of Exposure** shall mean that radius constructed with the point of escape as its starting point and its length calculated as provided for in General Provisions D.

**Area of Exposure** shall mean the area within a circle constructed with the point of escape as its center and the radius of exposure as its radius.

**Public Area** shall mean a dwelling, place of business, church, school, hospital, school bus stop, governmental building, a public road, all or any portion of a park, town, city, village, or other similar area that can be populated at any given time.

**Public Road** shall mean any federal, state, county, or municipal street or road owned or maintained for public access or use.

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**Contingency Plan** shall mean a written document that shall provide an organized plan of action for alerting and protecting the public within an area of exposure following the accidental release of a potentially hazardous volume of hydrogen sulfide.

### **I. GENERAL PROVISIONS**

- A. Each operator shall determine the Hydrogen Sulfide (H<sub>2</sub>S) concentration in the gaseous mixture in an operation or system. Test of vapor accumulation in storage tanks may be made with industry accepted colorimetric tubes.
- B. Each operator shall immediately notify the Arkansas Oil and Gas Commission of any accidental release of Hydrogen Sulfide (H<sub>2</sub>S) gas which measures 15 ppm or greater from any point on a radius which exceeds 100 feet from the point of release, or includes any portion of a public area. Such notification shall be followed by a written report which shall be sent to the Commission within ten (10) days of the incident.
- C. Each operator shall notify the AOGC before conducting any well servicing activity on any well(s) operated under the provisions of this rule.
- D. For all operations subject to a radius of exposure (ROE), that radius shall be determined by the following Pasquill-Gifford Equations

1.  $ROE = 100 \text{ ppm} \times X = [(1.589)(\text{mole fraction of H}_2\text{S})(Q)]^{6258}$

2.  $ROE = 500 \text{ ppm} \times X = [(0.4546)(\text{mole fraction of H}_2\text{S})(Q)]^{6258}$

Where X = radius of exposure in feet

H<sub>2</sub>S = mole fraction of hydrogen sulfide in the gaseous mixture established by an industry accepted method.

Q = maximum volume of escapable gas in cubic feet per day.

For drilling of a well where insufficient data exist to calculate a ROE, but where Hydrogen Sulfide may be expected, then a radius of exposure shall be three thousand (3000) feet. A lesser - assumed radius may be considered upon written request setting out the justification for same.

- E. Wind indicators shall be installed at strategic locations on or near the drilling, workover, or production facility to indicate the wind direction at all times and the safe upwind areas in the event Hydrogen Sulfide becomes present.

### **II. STORAGE TANK PROVISIONS**

Storage tanks which are utilized as a part of a production operation, and which are operated at or near atmospheric pressure, and where the vapor accumulation has a Hydrogen Sulfide (H<sub>2</sub>S) concentration in excess of 100 ppm, shall be subject to the following:

- A. No determination of a radius of exposure shall be made for storage tanks as herein described.
- B. A warning sign shall be posted on or within fifty (50) feet of the facility to alert the general public of the potential danger.
- C. All tank hatches shall be kept closed at all times except for when it is necessary to inspect or gauge such tanks. All storage tanks that are not fenced as required in (D.) below are required to be kept secured by lock the hatches on all such tanks when not being inspected or gauged.

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- D. Entry should be restricted to essential personnel only. As a security measure, fencing is required when storage tanks are inside the limits of a city, townsite or are reasonably exposed to the public. All means of entry shall be locked when the facility is unattended.
- E. All H<sub>2</sub>S fumes and vapors shall be either recovered by a vapor recovery unit, flared through a flare stack with a permanent pilot attached thereon or on a case by case basis vented by permit only. Permits to vent will be reviewed with respect to the distance to the nearest public receptor, the concentration of H<sub>2</sub>S gas and the volume to be released.

### **III. WARNING AND MARKER PROVISION**

- A. A warning sign shall be maintained on all streets or roads which provide access to the facility.
- B. Marker signs shall be installed along the pipeline when it is located within a public area and at each public road crossing or along a public road, at intervals frequent enough in the judgment of the operator so as to provide warning to avoid the accidental rupturing of line by excavation.
- C. The marker sign shall contain sufficient information to establish the ownership and existence of the line and shall indicate by the use of the words: "Poison Gas" that a potential danger exists.
- D. In satisfying the sign requirement, the following will be acceptable:
  - 1. Sign of sufficient size to be readable at a reasonable distance from the facility.
  - 2. Existing signs installed prior to the effective date of this section will be acceptable if they indicate the existence of a potential hazard.

### **IV. CONTROL AND EQUIPMENT SAFETY PROVISION**

Operators subject to this provision shall install safety devices and maintain them in an operable condition and shall establish safety procedures designed to prevent the undetected continuing escape of Hydrogen Sulfide (H<sub>2</sub>S). Safety devices should be tested annually and a record of each test maintained.

### **V. DRILLING AND WORKOVER PROVISIONS**

- A. A certificate of compliance form (HS-1) must be filed with each intent to drill a well in an area and to a depth known to or that may contain Hydrogen Sulfide Gas.
- B. Drilling operations are required to be in compliance with the provisions of the rule when the drilled depth is within 1,000 feet of a zone known to or that may contain Hydrogen Sulfide. A variance from the compliance depth may be approved upon written request setting out justification, however the compliance depth will not be less than 500 feet.
- C. Protective breathing equipment shall be maintained for all personnel at the site.
- D. As a minimum, hydrogen sulfide sensors for drilling or workover rigs shall be located at the rig floor, bell nipple, shale shaker and mud pits unless otherwise approved by the Director.
- E. Blowout preventers and well control systems shall be pressure tested initially either to a minimum of 3,000 psig or to 75% of the internal yield (burst) pressure taken from the API casing properties table for the size and grade of casing being used, whichever is less. Thereafter, all well control systems shall be tested prior to reaching compliance depth. The Oil and Gas Commission shall be

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notified at least four (4) hours prior to the initial “Blowout Preventer and Well Control System Test”. The Commission shall have the authority to vary test procedures as is deemed necessary.

- F. Secondary remote control of blowout prevention and choke equipment shall be located away from the rig floor at a safe distance from the wellhead.
- G. The operator shall install a choke manifold, mud-gas separator and flare line, and provide a suitable method for lighting the flare.
- H. Drill Stem Testing:
  - 1. Drill stem testing of Hydrogen Sulfide (H<sub>2</sub>S) zones is permitted only in daylight hours.
  - 2. The Oil and Gas Commission shall be notified a minimum of 12 hours in advance of the intention to conduct a drill stem test of a formation containing Hydrogen Sulfide (H<sub>2</sub>S). In the event that Hydrogen Sulfide (H<sub>2</sub>S) is anticipated during the drill stem test, all testing and safety equipment shall be on location for use as deemed necessary by the Commission.
  - 3. All gas produced from the test shall be flared through a flare system with a pilot and an automatic igniter.
  - 4. Every precaution should be made not to affect the public during the well test. In the event, residents are within the Radius of Exposure or may be affected by a Drill Stem Test, the operator should contact those residents and inform them of the pending action. Special consideration should be given residents with children and/or medical ailments.
- I. A supervisory employee or safety company representative that is specifically trained in the operation, maintenance, and testing of all safety equipment and is knowledgeable of the contingency plan and safety procedures must be on site from the compliance depth through the cementing of the long string (production) casing and during the time in which the actual completion work is being performed on the well.
- J. API Publication RP-49 and RP-68 is referenced as a suggested guideline for drilling and workover of wells subject to the provision.

### **VI. CONTINGENCY PLAN PROVISION**

- A. All operators whose operations are subject to this provision shall develop a written contingency plan complete with all requirements before Hydrogen Sulfide (H<sub>2</sub>S) operations are begun.
- B. The purpose of the contingency plan shall be to provide an organized plan of action for alerting and protecting the public following the accidental release of a potentially hazardous volume of Hydrogen Sulfide (H<sub>2</sub>S).
- C. The contingency plan shall be activated immediately upon the detection of an accidental release of Hydrogen Sulfide (H<sub>2</sub>S) which exceeds fifteen (15) ppm or greater from any point on a radius which exceeds 100 feet from the point of release, or includes any portion of a public area.
- D. Conditions that might exist in each area of exposure shall be considered when preparing a contingency plan.
- E. The plan shall include instructions and procedures for alerting the general public and public safety personnel of the existence of an emergency.

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- F. The plan shall include a procedure for requesting assistance and for follow-up action to evacuate the public from an area of exposure.
- G. The plan shall include a call list which will include the following as they may be applicable:
  - 1. Local supervisory personnel
  - 2. Arkansas Oil and Gas Commission
  - 3. County Sheriff
  - 4. State Police
  - 5. Ambulance Service
  - 6. Hospital
  - 7. Fire Department
  - 8. Contractors for supplemental equipment
  - 9. Office of Emergency Services
  - 10. Other public agencies as needed
- H. The plan shall include a plat detailing the area of exposure. The plat shall include the locations of private dwellings, residential areas, public facilities such as schools, business locations, public roads or other similar areas where the public might reasonably be expected within the area of exposure. A separate list of all phone numbers should be attached to the plat.
- I. A schematic of the facility indicating all equipment on location should be included.
- J. The Oil and Gas Commission shall be notified immediately if the contingency plan is activated.
- K. The retention of the contingency plan shall be as follows:
  - 1. The plan shall be available for Commission inspection at the well location.
  - 2. The plan shall be retained at the location which lends itself best to activation of the plan.
- L. The plan shall be kept updated to insure its current applicability. Each plan must be reviewed and updated annually and a copy of the updated plan submitted to the Commission in January of each calendar year.

### **VII. TRAINING PROVISION**

Each operator and contractor shall provide appropriate Hydrogen Sulfide (H<sub>2</sub>S) training for its employees who will be on-site. All personnel must have in their possession, current proof of annual training. This training should include the following:

- 1. Hazards and characteristics of Hydrogen Sulfide (H<sub>2</sub>S).

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2. Operations of safety equipment and life support systems.
3. First aid in the event of an employee exposure.
4. Use and operation of Hydrogen Sulfide (H<sub>2</sub>S) monitoring equipment.
5. Emergency response procedures to include corrective actions, shutdown procedures, evacuation routes and rescue methods.

(Source: 1991 rule book)

### **RULE B-42 - SEISMIC RULES AND REGULATIONS**

(a) Definitions:

1. “Field Seismic Operations” shall mean any geophysical method performed on the surface of the land utilizing certain instruments operating under the laws of physics respecting vibration or sound to determine conditions below the surface of the earth which may contain oil or gas and is inclusive of but not limited to the preliminary line survey, the acquisition of necessary permits, the selection and marking of shot-hole locations, necessary clearing of vegetation, shot-hole drilling, implantation of charge, placement of geophones, detonation and backfill of shot-holes.
  2. “Seismic Shoot” shall mean a specific project during which field seismic operations shall be conducted with due diligence, not to exceed or substantially vary from those seismic operations indicated in the original permit application.
- (b) Any person desiring to perform field seismic operations within the State of Arkansas shall obtain a permit for each seismic shoot from the Commission prior to commencing field seismic operations. A copy of the approved permit shall be maintained in the central recording unit used for the seismic shoot. Such permit shall be valid for a period of one year from the date of issuance.
- (c) The applicant shall make application on a form prescribed by the Director.
- (d) Each application as filed shall be accompanied by an application fee of Five Hundred Dollars (\$500.00).
- (e) Each application for a 2D seismic shoot shall include information and maps, (i) to identify the seismic shoot area, (ii) to indicate the proposed location of all 2D seismic lines, and (iii) to designate an area (each, a “2D Seismic Line Corridor” within which a 2D seismic line may be located or relocated by permittee). No 2D Seismic Line Corridor shall extend farther than one-half (1/2) mile in either direction from the proposed location of the relevant 2D seismic line. Applicants may omit areas within the outer boundaries of any 2D Seismic Line Corridor from the 2D Seismic Line Corridor. Each application for a 3D seismic shoot shall include information and maps to identify the seismic shoot area including the 3D project outline for such seismic shoot. Any relocations of a 2D seismic line or any portion thereof outside the 2D Seismic Line Corridor designated therefore or any increase in a 3D survey outline shall be immediately reported to the Director. The applicant shall also be required to file an amended application showing the revised location of such relocated 2D seismic lines, if applicable. The applicant may also file a request, in writing, that the application with all information and maps, be kept confidential for a period not to exceed twelve (12) months from the date of the filing of the original application. Subject to any applicable exceptions, including without limitation the trade secret exception to the general

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requirements of Ark. Code Ann. (1987) § 25-19-101 et. seq., said application and any information and maps submitted may be released to the extent required by a court of law or by applicable state law, regardless of the request that such be kept confidential. Said application and any information and maps may also be introduced by the Commission as evidence in any public hearing before the Commission or in any judicial action, regardless of such request; provided, however, that permit holder shall retain the right to object to their admissibility and to seek a closed hearing or a protective order with respect thereto.

- (f) The application shall be accompanied with evidence of the appropriate type(s) of financial assurance, as described in General Rule B-2 (d)(1), (2), (3) and (4), and subject to those conditions listed therein.
1. The financial assurance shall be at least fifty thousand dollars (\$50,000), but not more than two hundred fifty thousand dollars (\$250,000), provided that the aggregate amount of financial assurance required for any applicant for all permits and expired permits issued pursuant to this Rule shall not exceed two hundred fifty thousand dollars (\$250,000).
  2. The amount of the financial assurance shall be determined by the Director based on, but not limited to, the proximity of the seismic shoot to populated areas, cultural features, sensitive environmental areas, and past Commission enforcement history against the applicant.
  3. The financial assurance required to be filed shall remain in effect for one year following the conclusion of all field seismic operations by the permit holder in the State of Arkansas.
- (g) Upon review of a completed permit application, the Director shall either issue the permit or deny the permit application. If the permit application is denied, the applicant may file an application for a hearing to appeal the Director's decision in accordance with General Rule A-2, A-3, and other applicable hearing procedures.
- (h) No entry shall be made by any person to conduct field seismic operations, upon the lands where such field seismic operations are to be conducted, without the permit holder having first given notice at least ten (10) calendar days prior to commencement of field seismic operations.
1. The notice shall be in writing and given either personally or by certified United States mail to the surface owners reflected in the tax records of the counties where the lands are located, at the mailing addresses identified for such surface owners in such records
  2. In instances where it can be reasonably ascertained that there are occupants residing on the lands who are not the surface owners, such notice shall also be given such occupants, unless there is no known mailing address and personal notice cannot reasonably be given. Any such notice to an occupant shall be deemed delivered if delivered personally or deposited in the United States mail postage prepaid to said occupants at the mailing address of the lands.
  3. Written notice shall also be given either personally or by certified United States mail to operators, as reflected in the records of the AOGC, of producing wells within the seismic shoot area, at the mailing addresses identified for such operators in said records.
  4. The notice shall contain the:

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- A. Name of the person or entity that is conducting the field seismic operations;
  - B. Proposed location of the field seismic operations; and
  - C. Approximate date the person or entity proposes to commence field seismic operations;
- (i) The permit holder shall also notify the Commission within five (5) business days of the commencement and completion of each seismic shoot.
  - (j) All vehicles utilized by the permit holder, or its agents or contractors, shall be clearly identified by signs or markings, utilizing letters and /or numbers a minimum of three (3) inches in height and one-half (1/2) inch wide, indicating the name of such agent.
  - (k) No shot-hole shall be drilled nor charge detonated within two hundred feet (200') of any residence, water well, oil well, gas well, brine well, injection well or other structure without having first secured the express written authority of the owner(s) thereof and the permit holder shall be responsible for any resulting damages in accordance with this rule. Written authority must also be obtained from the owner(s) if any charge exceeds the maximum allowable charge within the scaled distance below:

DISTANCE TO STRUCTURE (FT)*	MAXIMUM ALLOWABLE CHARGE WEIGHTS (LBS)*
50	0.5
100	2.0
150	4.5
200	8.0
250	12.0
300	18.0
350	25.0

\* Based upon a charge weight of seventy (70) FT/LB ½

- (l) The maximum allowable charge weight (lbs.) is 25.0, unless the permit holder requests and secures the prior written authorization from the Director.
- (m) All holes drilled for field seismic activity shall be properly back filled with soils and/or other suitable material and tamped. A mound may be left over the hole for settling allowance.
- (n) All seismic sources placed for detonation for use in field seismic operations shall contain additives to accelerate the biodegradation thereof and shall be handled with due care in accordance with industry standards. The cap leads for any seismic sources that fail to detonate shall be buried at least three (3) feet deep.
- (o) All vegetation cleared to the ground for the purposes of field seismic activity shall be cleared in a competent and workmanlike manner in the exercise of due care.
- (p) Unless otherwise consented to by the surface owner in writing, permit holder shall not cut down any tree measuring six (6) inches or more in diameter, as measured at a height of three (3) feet from the ground surface unless there are no reasonable alternatives to the removal of such tree(s)

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available to permit holder. Permit holder shall compensate surface owner the value of all such trees as determined by a forester licensed by the State of Arkansas.

- (q) All excessive rutting or soil disturbances resulting from seismic activity shall be repaired or restored to the original condition and contour to the extent reasonable, unless otherwise agreed to by the permit holder and the surface owner in writing.
- (r) All fences removed for the purposes of field seismic activity shall be replaced, unless otherwise agreed to by the permit holder and the surface owner in writing.
- (s) All debris associated with the seismic activity shall be removed and properly disposed.
- (t) Any person who conducts any field seismic operations for a seismic shoot in the state without having obtained a permit therefore shall be subject to a civil penalty of one thousand dollars (\$1,000) for each day such field seismic operations continue. Any person who does not fully comply with any other provision of this rule shall be subject to a civil penalty of one thousand dollars (\$1,000) for each violation.
- (u) Failure to comply with the provisions of this rule or Ark. Code Ann. (1987) § 15-71-114 as amended or any other applicable orders, rules, or regulations of the Commission may result in the forfeiture of the financial assurance to remediate damages or recover civil penalties assessed in accordance with subparagraph (t) above.
- (v) In addition, any surface owner may seek to recover damages from the financial assurance, as follows:
  - 1. Any surface owner seeking to recover under such financial assurance for damages caused by the performance of such field seismic operations must file written notice of claim, on a form prescribed by the Director, within one (1) year of the date of expiration of the permit; provided however, that such claim shall be subordinate to the rights of the Commission.
  - 2. Any claim received from a surface owner shall be investigated by the Director and a decision shall be rendered by the Director. If the Director's decision is not satisfactory to either the surface owner or the permit holder, either party may file an application for a hearing to appeal the Director's decision in accordance with General Rule A-2, A-3, and other applicable hearing procedures. At a hearing, the surface owner must prove that (a) actual damages occurred, (b) such damages were caused by (i) the negligence of the permit holder, (ii) a violation of this rule by permit holder or (iii) an unreasonable or excessive use of the surface owner's land by the permit holder under the applicable oil and gas lease or other agreement under which the surface owner and/or mineral owner consents to the use of the surface for seismic operations, and (c) the amount of such damages.
  - 3. If the Commission finds that the permit holder is liable to the surface owner for any such damages, the permit holder shall have 30 days from the effective date of the order to pay the surface owner the amount specified by the Commission. If the permit holder fails to pay the amount specified by the Commission to the surface owner, the Director may initiate bond forfeiture proceedings as described in General Rule B-2 (k) to pay damages specified by the Commission, provided however, that such amount shall be subordinate to the rights of the Commission.

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4. If the permit holder's financial assurance is forfeited, the permit holder shall cease all field seismic operations until another bond in the same amount of the original bond is filed with the Commission for the same purposes as the original bond.

(Source: 1991 rule book; amended July 3, 2003; amended June 15, 2008)

### **RULE B-43 - ESTABLISHMENT OF DRILLING UNITS FOR GAS PRODUCTION FROM CONVENTIONAL AND UNCONVENTIONAL SOURCES OF SUPPLY OCCURRING IN CERTAIN PROSPECTIVE AREAS NOT COVERED BY FIELD RULES**

- (a) For purposes of this rule, unconventional sources of supply shall mean those common sources of supply that are identified as the Fayetteville Shale, the Moorefield Shale, and the Chattanooga Shale Formations, or their stratigraphic shale equivalents, as described in published stratigraphic nomenclature recognized by the Arkansas Geological Survey or the United States Geological Survey.
- (b) For purposes of this rule, conventional sources of supply shall mean all common sources of supply that are not defined as unconventional sources of supply in section (a) above.
- (c) This rule is applicable to all occurrences of conventional and unconventional sources of supply in Arkansas, Cleburne, Conway, Cross, Faulkner, Independence, Jackson, Lee, Lonoke, Monroe, Phillips, Prairie, St. Francis, Van Buren, White and Woodruff Counties, Arkansas and shall be called the "section (c) lands". The development of the conventional and unconventional sources of supply within the section (c) lands shall be subject to the provisions of this rule.
- (d) This rule is further applicable to all occurrences of unconventional sources of supply in Crawford, Franklin, Johnson, and Pope Counties, Arkansas and shall be called the "section (d) lands". The development of the unconventional sources of supply within the section (d) lands shall be subject to the provisions of this rule. For purposes of this rule, the section (d) lands and the section (c) lands may collectively be referred to as the "covered lands".
- (e) All Commission approved Fayetteville Shale and non-Fayetteville Shale fields that are situated within the section (c) lands and that are in existence on the date this rule is adopted (collectively, the "existing fields"), are abolished and the lands heretofore included within the existing fields are included within the section (c) lands governed by this rule. Further, all amendments that added the Fayetteville Shale Formation to previously established fields for conventional sources of supply occurring in the section (d) lands are abolished and continuing development of the Fayetteville Shale and other unconventional sources of supply in these lands shall be governed by the provisions of this rule. All existing individual drilling units however, contained within the abolished fields shall remain intact.
- (f) All drilling units established for conventional and unconventional sources of supply within the section (c) lands and all drilling units established for unconventional sources of supply within the section (d) lands shall be comprised of single governmental sections, typically containing an area of approximately 640 acres in size. Each drilling unit shall be characterized as either an "exploratory drilling unit" or an "established drilling unit". An "exploratory drilling unit" shall be defined as any drilling unit that is not an established drilling unit. An "established drilling unit" shall be defined as any drilling unit that contains a well that has been drilled and completed in a conventional or unconventional source of supply (a "subject well"), and for which the operator or other person responsible for the conduct of the drilling operation has filed, with the Commission, all appropriate documents in accordance with General Rule B-5, and been issued a certificate of

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compliance. Upon the filing of the required well and completion reports for a subject well and the issuance of a certificate of compliance with respect thereto, the exploratory drilling unit upon which the subject well is located and all contiguous governmental sections shall be automatically reclassified as established drilling units.

- (g) The filing of an application to integrate separately owned tracts within an exploratory drilling unit, as defined in Section (f) above and as contemplated by A.C.A. § 15-72-302(e), is permissible, provided that one or more persons who collectively own at least an undivided fifty percent (50%) interest in the right to drill and produce oil or gas, or both, from the total acreage assigned to such exploratory drilling unit support the filing of the application. In determining who shall be designated as the operator of the exploratory drilling unit that is being integrated, the Commission shall apply the following criteria:
- 1) Each integration application shall contain a statement that the applicant has sent written notice of its application to integrate the drilling unit to all working interest owners of record within such drilling unit. This notice shall contain a well proposal and AFE for the initial well and may be sent at the same time the integration application is filed.
  - 2) If any non-applicant working interest owner in the drilling unit owns, or has the written support of one or more working interest owners that own, separately or together, at least a fifty percent (50%) working interest in the drilling unit, such non-applicant working interest owner may (i) object to the applicant being named operator (a “section (g) operator challenge”) or (ii) file a competing integration application (a “section (g) competing application”) that challenges any aspect of the original integration application for such drilling unit. Any contested matter that is limited to a section (g) operator challenge shall be heard at the Commission hearing that was originally scheduled for such integration application. Any contested matter that involves the filing of a section (g) competing application shall be postponed until the next month’s regularly scheduled Commission hearing if postponement is requested by either competing applicant.
  - 3) If a party desiring to be named operator of a drilling unit is supported by a majority-in-interest of the total working interest ownership in the drilling unit (the “majority owner”), the majority owner shall be designated unit operator.
  - 4) In the event two parties desiring to be named operator own, or have the written support of one or more working interest owners that own, exactly, an undivided 50% share of the drilling unit and either a section (g) operator challenge is submitted or a section (g) competing application is filed, operatorship shall be determined by the Commission, based on the factors it deems relevant and the evidence submitted by the parties or as otherwise provided by subsequent rule.
  - 5) If the person designated as operator by the Commission in the adjudication of a section (g) operator challenge or a section (g) competing application does not commence actual drilling operations on the drilling unit within the twelve (12) month period set out in the integration order, such operator shall not be entitled to be designated as operator under the subsequent integration of such drilling unit unless (i) the operator’s failure to commence such drilling operations was due to force majeure, or (ii) a majority-in-interest of the total working interest ownership in the drilling unit (excluding such designated operator) support such operator.
- (h) The filing of an application to integrate separately owned tracts within an established drilling unit, as defined in Section (f) above and as contemplated by A.C.A. § 15-72-303 is permissible, without a minimum acreage requirement, provided that one or more persons owning an interest in

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the right to drill and produce oil or gas, or both, from the total acreage assigned to such established drilling unit requests such integration. In determining who shall be designated as the operator of the established drilling unit that is being integrated, the Commission shall apply the following criteria:

- 1) Each integration application shall contain a statement that the applicant has sent written notice of its application to integrate the drilling unit to all working interest owners of record within such drilling unit. This notice shall contain a well proposal and AFE for the initial well and may be sent at the same time the integration application is filed.
- 2) Any non-applicant working interest owner in the drilling unit may object to the applicant being named operator (a “section (h) operator challenge”). In addition, if an objecting party owns, or has the written support of one or more working interest owners that own, separately or together, a larger percentage working interest in the drilling unit than the applicant, such objecting party may file a competing integration application (a “section (h) competing application”) that challenges any aspect of the original integration application for such drilling unit. Any contested matter that is limited to a section (h) operator challenge shall be heard at the Commission hearing that was originally scheduled for such integration application. Any contested matter that involves the filing of a section (h) competing application shall be postponed until the next month’s regularly scheduled Commission hearing if postponement is requested by either competing applicant.
- 3) If a party desiring to be named operator of a drilling unit is a majority owner (as defined in subsection (g)(3) above), the majority owner shall be designated unit operator.
- 4) If a party desiring to be named operator of a drilling unit is not a majority owner, but is supported by the largest percentage interest of the total working interest ownership in the drilling unit (the “plurality owner”), there shall be a rebuttable presumption that the plurality owner shall be designated unit operator. If a section (h) operator challenge to a plurality owner being designated unit operator is submitted by a party that owns, or has the written support of one or more owners that own, separately or together, the next largest percentage share of the working interest ownership in the drilling unit (the “minority owner”), the Commission may designate the minority owner operator if the minority owner is able to show that, based on the factors the Commission deems relevant and the evidence submitted by the parties, the Commission should designate the minority owner as unit operator.
- 5) If two or more parties that desire to be named operator own, or have the support of one or more working interest owners that own, separately or together, the same working interest ownership in the drilling unit, operatorship shall be determined by the Commission, based on the factors it deems relevant and the evidence submitted by the parties or as otherwise provided by subsequent rule.
- 6) If the person designated as operator by the Commission in the adjudication of a section (h) operator challenge or a section (h) competing application does not commence actual drilling operations on the drilling unit within the twelve (12) month period set out in the integration order, such operator shall not be entitled to be designated operator under the subsequent integration of such drilling unit unless (i) the original operator’s failure to commence drilling operations on the initial well was due to force majeure, or (ii) a majority-in-interest of the total working interest ownership in the drilling unit (excluding the original operator) support the original operator.

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- (i) The well spacing for wells drilled in drilling units for unconventional sources of supply within the covered lands are as follows:
  - 1) Each well location (as defined in Section (a)(2) of General Rule B-3) shall be at least 560 feet from any drilling unit boundary line;
  - 2) Each well location (as defined in Section (a)(2) of General Rule B-3) shall be at least 560 feet from any other well in the same common source of supply that extends across drilling unit boundaries unless all owners, as defined in Ark. Code Ann. (1987) § 15-72-102(9), in all units consent in writing to the drilling of a well closer than 560 feet.
  - 3) Each well location (as defined in Section (a)(2) of General Rule B-3) shall be at least 448 feet, an allowed 20% variance, from all other well locations in the same common source of supply within an established drilling unit, unless all owners, as defined in Ark. Code Ann. (1987) § 15-72-102(9), in the unit consent in writing to the drilling of a well closer than 448 feet.
  - 4) No more than 16 wells may be drilled per 640 acres for each separate unconventional source of supply within an established drilling unit; and
  - 5) Applications for exceptions to these well location provisions, relative to a drilling unit boundary or other location in a common source of supply, may be brought before the Commission.
  
- (j) The well spacing for wells drilled in drilling units for conventional sources of supply within the section (c) lands are as follows:
  - 1) Only a single well completion will be permitted to produce from each separate conventional source of supply within each established drilling unit, unless additional completions are approved in accordance with General Rule D-19;
  - 2) Each well location (as defined in Section (a) 2) of General Rule B-3) shall be at least 1120 feet from any drilling unit boundary line;
  - 3) Well completions located closer than 1120 feet from all established drilling unit boundaries, shall be subject to approval in accordance with General Rule B-40; and
  - 4) Applications for exceptions to these well location provisions, relative to a drilling unit boundary or other location in a common source of supply, may be brought before the Commission.
  
- (k) The casing programs for all wells drilled in exploratory and established drilling units established by this rule and occurring in the covered lands specified by this rule shall be in accordance with General Rule B-15.
  
- (l) Wells completed in and producing from only conventional sources of supply, as defined in Section (b), shall be subject to the testing and production allowable provisions of General Rule D-16. Wells completed in and producing from only unconventional sources of supply, as defined in Section (a), shall be subject to the initial and annual testing and test reporting provisions of General Rule D-16, except that the initial test shall be witnessed at the discretion of the Director, the required annual tests shall only apply to those wells which produce with a reduction in the allowable due to an encroachment penalty and may be performed without the presence of a Commission representative, and there shall be no production allowable established for wells

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producing from unconventional sources of supply located within the covered lands. After the initial test, wells completed in and producing from only unconventional sources of supply, as defined in Section (a), and which do not produce with a reduction in the allowable due to an encroachment penalty, shall not be subject to the annual testing and test reporting provisions of General Rule D-16.

- (m) The commingling of completions for unconventional and/or conventional sources of supply within each well situated on an established drilling unit, shall be subject to the provisions and approval process outlined in General Rule D-18. If an unconventional source of supply is approved to be commingled with a conventional source of supply within a well situated on an established drilling unit, the well shall be subject to the production allowable provisions of General Rule D-16.
- (n) The reporting requirements of General Rule B-5 shall apply to all wells subject to the provisions of this rule. In addition, the operator of each such well shall be required to file monthly gas production reports, on a Form approved by the Director, no later than 45 days after the last day of each month.
- (o) The Commission specifically retains jurisdiction to consider applications brought before the Commission from a majority in interest of working interest owners in two or more adjoining drilling units seeking the authority to drill, produce and share the costs of and the proceeds of production from one or more separately metered wells that extend across or encroach upon drilling unit boundaries and that are drilled and completed in one or more unconventional sources of supply within the covered lands. All such applications shall contain a proposed agreement on the formula for the sharing of costs, production and royalty from the affected drilling units.
  - 1) However, if the majority in interest of working interest owners agree to share a proposed well between two or more adjoining drilling units, which have been previously integrated, utilizing the below methodology for sharing of costs, production and royalty among the affected drilling units, the Director or his designee is authorized to approve the application administratively. The method for sharing the costs of and the proceeds of production from one or more separately metered wells shall be based on acreage allocation as follows:
    - A. An area measured 560 feet along and on both sides of the entire length of the horizontal perforated section of the well, and including an area formed by a 560 feet radius from the beginning point of the perforated interval, and a 560 feet radius from the ending point of the perforated interval shall be calculated for each such separately metered well (the “calculated area”).
    - B. Each calculated area shall be allocated and assigned to each drilling unit according to that portion of the calculated area occurring within each drilling unit.
  - 2) Each such application for utilizing the above methodology shall be submitted on a form prescribed by the Director of Production and Conservation, accompanied by an application fee of \$500.00 and include the name and address of each owner, as defined in A.C.A. § 15-72-102(9), within each of the drilling units in which the proposed well is to be drilled and/or completed.
  - 3) Concurrently with the filing of an application utilizing the above methodology, the applicant shall send to each owner specified in subsection (o)(2) above a notice of the

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application filing and verify such mailing by affidavit, setting out the names and addresses of all owners and the date(s) of mailing.

- 4) Any owner noticed in accordance with subsection (o)(3) above shall have the right to object to the granting of such application within fifteen (15) days after the receipt of the application by the Commission. Each objection must be made in writing and filed with the Director. If a timely written objection is filed as herein provided, then the applicant shall be promptly furnished a copy and such application and the objection shall be referred to the Commission for determination at the next regular hearing.
  - 5) An application may be referred to the Commission for determination when the Director deems it necessary that the Commission make such determination for the purpose of protecting correlative rights of all parties. Promptly upon such determination, and not later than fifteen (15) days after receipt of the application, the Director shall give the applicant written notice, citing the reason(s) for denial of the application under this rule and the referral to the full Commission for determination.
  - 6) If the Director has not notified the applicant of the determination to refer the application to the Commission within the fifteen (15) day period in accordance with the foregoing provisions, and if no objection is received at the office of the Commission within the fifteen (15) days as provided for in subsection (o)(4), the application shall be approved and a drilling permit issued.
  - 7) Upon receipt of the drilling permit, the applicant shall give the other working interest parties written notice that the drilling permit has been issued. The working interest parties, who have not previously made an election, shall have 15 days after receipt of said notice within which to make an election to participate in the well or be deemed as electing non-consent and subject to the non-consent penalty set out in the existing Joint Operating Agreement(s) covering their respective drilling unit or units.
  - 8) Following completion of the well and prior to the issuance by the Commission of the Certificate of Compliance to commence production, the final location of the perforated interval shall be submitted to the Commission to verify the proposed portion of the calculated area occurring within each drilling unit as specified in subsection (o)(1) above.
- (p) The Commission shall retain jurisdiction to consider applications, brought before the Commission, from a majority in interest of working interest owners in two or more adjoining governmental sections seeking the authority to combine such adjoining governmental sections into one drilling unit for the purpose of developing one or more unconventional sources of supply. In any such multi-section drilling unit, production shall be allocated to each tract therein in the same proportion that each tract bears to the total acreage within such drilling unit.
- (q) The Commission shall retain jurisdiction to consider applications, brought before the Commission, from a majority in interest of working interest owners in a drilling unit seeking the authority to omit any lands from such drilling unit that are owned by a governmental entity and for which it can be demonstrated that such governmental entity has failed or refused to make such lands available for leasing.

(Source: new rule October 16, 2006; amended December 16, 2007, amended June 15, 2008, amended December 14, 2008)

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### **RULE B-44 - ESTABLISHMENT OF DRILLING UNITS FOR GAS PRODUCTION FROM ALL SOURCES OF SUPPLY OCCURRING IN CERTAIN PRODUCING AREAS IN FRANKLIN, LOGAN, SCOTT, SEBASTIAN AND YELL COUNTIES**

- (a) Definitions:
- (1) “Unconventional Sources of Supply” shall mean those common sources of supply that are identified as the Fayetteville Shale, the Moorefield Shale, and the Chattanooga Shale Formations, or their stratigraphic shale equivalents, as described in published stratigraphic nomenclature recognized by the Arkansas Geological Survey or the United States Geological Survey.
  - (2) “Conventional Sources of Supply” shall mean all common sources of supply that are not defined as unconventional sources of supply in section (a)(1) above or the Middle Atoka as defined in section (a)(4) below, or a tight gas formation as defined in section (a) (3) below.
  - (3) “Tight Gas Formation” shall mean tight gas formation as defined in Ark. Code Ann. (1987) § 26-58-101.
  - (4) “Middle Atoka” shall mean the tight gas formation that is the stratigraphic equivalent, from the top of the Basham Formation to the base of Borum Formation, which includes the Hartford Series, within the covered lands specified in section (b) below.
- (b) This rule is applicable to all sources of supply occurring in the “covered lands,” except the Hartshorne Coal Formation or any other coal formation. The development of these sources of supply within the covered lands shall be subject to the provisions of this rule. The covered lands are specified as follows:
- (1) Sections 19-36, T7N R28W; Sections 1-3 and 11, T6N, R29W all in Franklin County;
  - (2) Sections 19-36 T7N R27W; Sections 19-36 T7N R26W; Sections 13-36 T7N R25W; Sections 13-36 T7N R24W; Sections 13-36 T7N R23W; all of T6N R28W; all of T6N R27W; all of T6N R26W; all of T5N R29W; all of T5N R28W; all of T5N R27W; all of T5N R26W; Sections 1, 2, 3, 10, 11, 12 T4N R29W; Sections 1-12 T4N R28W; Sections 1-12 T4N R27W; Sections 1-12 T4N R26W all in Logan County and those portions of T6N R25W, T6N R24W and T6N R23W located in Logan County;
  - (3) That portion of T5N R30W, T4N R29W, T4N R28W, T4N R27W, and T4N R26W located in Scott County; and all of T4N R30W in Scott County;
  - (4) Sections 31-36 T7N R31W; Sections 31 and 32 T7N R30W; all of T6N R32W; all of T6N R31W; all of T6N R30W; all of T5N R32W; all of T5N R31W; all of T4N R32W and all of T4N R31W in Sebastian County and that portion of T6N R29W and T5N R30W located in Sebastian County;
  - (5) All of T5N R25W; all of T5N R24W; all of T5N R23W; all of T4N R25W; all of T4N R24W; all of T4N R23W; All of T6N R22W; all of T5N R22W; all of T4N R22W all in Yell County and those portions of T6N R25W, T6N R24W, T6N R23W located in Yell County;

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- (6) After notice and hearing, the Commission shall retain jurisdiction to expand the covered lands above, to include other lands proven to possess production characteristics similar to the lands initially contained within the covered lands.
- (c) The Commission shall retain jurisdiction, after notice and hearing, to determine which other formations, in addition to the Middle Atoka, qualify as tight gas formations within the covered lands.
- (d) All Commission approved fields, except those applicable to the Hartshorne Coal Formation or any other coal formation, that are situated within the covered lands and that are in existence on the date this rule is adopted (collectively, the “existing fields”), are abolished and the lands heretofore included within the existing fields are included within the covered lands governed by this rule. However, all existing portions of the abolished fields which are not included in the covered lands, those portions of the fields shall remain intact and operate under the existing field rules for that field or upon order of the Commission may be joined to other existing adjacent fields. All existing individual drilling units however, contained within the abolished fields shall remain intact.
- (e) All drilling units established for sources of supply within the covered lands shall be comprised of single governmental sections, typically containing an area of approximately 640 acres in size, unless a different size and/or configuration is approved for any unit or units by Order of the Commission. Each drilling unit shall be characterized as either an “exploratory drilling unit” or an “established drilling unit”. An “exploratory drilling unit” shall be defined as any drilling unit that is not an established drilling unit. An “established drilling unit” shall be defined as any drilling unit that contains a well that has been drilled and completed in any source of supply (a “subject well”), and for which the operator or other person responsible for the conduct of the drilling operation has filed, with the Commission, all appropriate documents in accordance with General Rule B-5, and has been issued a certificate of compliance. Upon the filing of the required well and completion reports for a subject well and the issuance of a certificate of compliance with respect there, the exploratory drilling unit upon which the subject well is located and all contiguous governmental sections shall be automatically reclassified as established drilling units. All existing “exploratory drilling units” contiguously located to drilling units with established production at the time this rule is adopted, shall be automatically reclassified as established drilling units.
- (f) The filing of an application to integrate separately owned tracts within an exploratory drilling unit, as defined in Section (e) above and as contemplated by A.C.A. § 15-72-302(e), is permissible, provided that one or more persons who own at least an undivided fifty percent (50%) interest in the right to drill and produce oil or gas, or both, from the total acreage assigned to such exploratory drilling unit agree. In determining who shall be designated as the operator of the exploratory drilling unit that is being integrated, the Commission shall apply the following criteria:
- 1) Each integration application shall contain a statement that the applicant has sent written notice of its application to integrate the drilling unit to all working interest owners of record within such drilling unit. This notice shall contain a well proposal and AFE for the initial well and may be sent at the same time the integration application is filed.
  - 2) If any non-applicant working interest owner in the drilling unit owns, or has the written support of one or more working interest owners that own, separately or together, at least a fifty percent (50%) working interest in the drilling unit, such non-applicant working interest owner may (i) object to the applicant being named operator (a “section (f) operator challenge”) or (ii) file a competing integration application (a “section (f)

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competing application”) that challenges any aspect of the original integration application for such drilling unit. Any contested matter that is limited to a section (f) operator challenge shall be heard at the Commission hearing that was originally scheduled for such integration application. Any contested matter that involves the filing of a section (f) competing application shall be postponed until the next month’s regularly scheduled Commission hearing if postponement is requested by either competing applicant.

- 3) If a party desiring to be named operator of a drilling unit is supported by a majority-in-interest of the total working interest ownership in the drilling unit (the “majority owner”), the majority owner shall be designated unit operator.
  - 4) In the event two parties desiring to be named operator own, or have the written support of one or more working interest owners that own, exactly, an undivided 50% share of the drilling unit and either a section (f) operator challenge is submitted or a section (f) competing application is filed, operatorship shall be determined by the Commission, based on the factors it deems relevant and the evidence submitted by the parties or as otherwise provided by subsequent rule.
  - 5) If the person designated as operator by the Commission in the adjudication of a section (f) operator challenge or a section (f) competing application does not commence actual drilling operations on the drilling unit within the twelve (12) month period set out in the integration order, such operator shall not be entitled to be designated as operator under the subsequent integration of such drilling unit unless (i) the operator’s failure to commence such drilling operations was due to force majeure, (ii) a majority-in-interest of the total working interest ownership in the drilling unit (excluding such designated operator) support such operator.
- (g) The filing of an application to integrate separately owned tracts within an established drilling unit, as defined in Section (e) above and as contemplated by A.C.A. § 15-72-303 is permissible, without a minimum acreage requirement, provided that one or more persons owning an interest in the right to drill and produce oil or gas, or both, from the total acreage assigned to such established drilling unit requests such integration. In determining who shall be designated as the operator of the established drilling unit that is being integrated, the Commission shall apply the following criteria:
- 1) Each integration application shall contain a statement that the applicant has sent written notice of its application to integrate the drilling unit to all working interest owners of record within such drilling unit. This notice shall contain a well proposal and AFE for the initial well and may be sent at the same time the integration application is filed.
  - 2) Any non-applicant working interest owner in the drilling unit may object to the applicant being named operator (a “section (g) operator challenge”). In addition, if an objecting party owns, or has the written support of one or more working interest owners that own, separately or together, a larger percentage working interest in the drilling unit than the applicant, such objecting party may file a competing integration application (a “section (g) competing application”) that challenges any aspect of the original integration application for such drilling unit. Any contested matter that is limited to a section (g) operator challenge shall be heard at the Commission hearing that was originally scheduled for such integration application. Any contested matter that involves the filing of a section (g) competing application shall be postponed until the next month’s regularly scheduled Commission hearing if postponement is requested by either competing applicant.

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- 3) If a party desiring to be named operator of a drilling unit is a majority owner (as defined in subsection (f) (3) above), the majority owner shall be designated unit operator.
  - 4) If a party desiring to be named operator of a drilling unit is not a majority owner, but is supported by the largest percentage interest of the total working interest ownership in the drilling unit (the “plurality owner”), there shall be a rebuttable presumption that the plurality owner shall be designated unit operator. If a section (g) operator challenge to a plurality owner being designated unit operator is submitted by a party that owns, or has the written support of one or more owners that own, separately or together, the next largest percentage share of the working interest ownership in the drilling unit (the “minority owner”), the Commission may designate the minority owner operator if the minority owner is able to show that, based on the factors the Commission deems relevant and the evidence submitted by the parties, the Commission should designate the minority owner as unit operator.
  - 5) If two or more parties that desire to be named operator own, or have the support of one or more working interest owners that own, separately or together, the same working interest ownership in the drilling unit, operatorship shall be determined by the Commission, based on the factors it deems relevant and the evidence submitted by the parties or as otherwise provided by subsequent rule.
  - 6) If the person designated as operator by the Commission in the adjudication of a section (g) operator challenge or a section (g) competing application does not commence actual drilling operations on the drilling unit within the twelve (12) month period set out in the integration order, such operator shall not be entitled to be designated operator under the subsequent integration of such drilling unit unless (i) the original operator’s failure to commence drilling operations on the initial well was due to force majeure, (ii) a majority-in-interest of the total working interest ownership in the drilling unit (excluding the original operator) support the original operator.
- (h) The well spacing for wells drilled in exploratory and established drilling units for all unconventional sources of supply within the covered lands are as follows:
- 1) Each well location, as defined in General Rule B-3 (a)(2), shall be at least 560 feet from any drilling unit boundary line, unless an exception is approved in accordance with subparagraph (p) below or in accordance with General Rule B-40;
  - 2) Each well location, as defined in General Rule B-3 (a)(2), shall be at least 560 feet from other well locations within an established drilling unit, within common sources of supply, unless an exception to this rule is approved by the Commission, following notice and hearing.
- (i) The well spacing for wells drilled in exploratory and established drilling units for the Middle Atoka, and any other tight gas formation source of supply within the covered lands are as follows:
- 1) Each well location, as defined in General Rule B-3 (a)(2), shall be at least 560 feet from any drilling unit boundary line, unless an exception is approved in accordance with subparagraph (p) below or in accordance with General Rule B-40;
  - 2) Each well location, as defined in General Rule B-3 (a)(2) shall be at least 560 feet from other well locations within an established drilling unit, unless the

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common sources of supply are stratigraphically different named intervals, approved in accordance with subparagraph (i) (3) below, or an exception to this rule is approved by the Commission, following notice and hearing.

- 3) Application for approval of well locations less than 560 feet from other well locations within an established unit, for common sources of supply from stratigraphically different named intervals, shall be submitted on a form prescribed by the Director, and contain, at a minimum, the following information:
  - A) The location of the unit;
  - B) The location or proposed location of all wells being encroached upon, showing the productive zones in each well;
  - C) A cross-section, containing the location or proposed location of all wells being encroached upon, demonstrating the productive zone will be from stratigraphically different named intervals;
  - D) In addition, each application shall provide proof of written notice to all owners, as defined in Ark. Code Ann. § 15-72-102(9), in the subject unit;
  - E) The notice shall contain at a minimum, the name of the applicant, the name and location of the encroaching wells, and instructions as to the filing with the Director written objections within fifteen (15) days after receipt of the application by the Director.
  - F) Any owner noticed in accordance with sub-paragraph i) 3) E) above shall have the right to object to the granting of such application within fifteen (15) days after receipt of the application by the Director.
  - G) If an objection is not received within fifteen (15) days after the receipt of the application, and that the productive zone will be from stratigraphically different named intervals, the Director shall approve the application.
  - H) If an objection is received, or if the application does not satisfy the requirements of this Rule and is denied by the Director, the Applicant may request to have the matter placed, in accordance with General Rules A-2, A-3 and other established procedures, on the docket of a regularly scheduled Commission hearing.
- (j) The well spacing for wells drilled in exploratory and established drilling units for the Upper Atoka and the Freiburg conventional sources of supply within the covered lands are as follows:
  - 1) Each well location, as defined in General Rule B-3 (a)(2), shall be at least 560 feet from any drilling unit boundary line, unless an exception is approved in accordance with subparagraph (p) below or in accordance with General Rule B-40;
  - 2) Each well location, as defined in General Rule B-3 (a)(2) shall be at least 560 feet from other well locations within an established drilling unit, within common

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sources of supply, unless an exception to this rule is approved by the Commission, following notice and hearing.

- (k) The well spacing for wells drilled in exploratory and established drilling units for all other conventional sources of supply within the covered lands are as follows:
  - 1) Only a single well completion will be permitted to produce from each separate conventional source of supply within each exploratory or established drilling unit, unless additional completions are approved in accordance with General Rule D-19;
  - 2) Each well location, as defined in General Rule B-3 (a)(2), shall be at least 1120 feet from any drilling unit boundary line, unless an exception is approved in accordance with subparagraph (p) below or General Rule B-40;
- (l) The casing programs for all wells drilled in exploratory and established drilling units established by this rule, and occurring in the covered lands specified by this rule, shall be in accordance with General Rule B- 15 or other applicable General Rules.
- (m) Wells completed in and producing from all sources of supply, within the covered lands, shall be subject to the testing and production allowable provisions of General Rule D-16 except that unconventional sources of supply shall not be subject to an allowable.
- (n) The commingling of completions in all sources of supply, within each well, shall be subject to the provisions in General Rule D-18.
- (o) The reporting requirements of General Rule B-5 shall apply to all wells subject to the provisions of this rule. In addition, the operator of each such well shall be required to file monthly gas production reports, on a Form approved by the Director, no later than 45 days after the last day of each month.
- (p) The Commission specifically retains jurisdiction to consider applications brought before the Commission from a majority in interest of working interest owners in two or more adjoining exploratory or established drilling units seeking the authority to drill, produce and share the costs of and the proceeds of production from a separately metered well that extends across or encroaches upon drilling unit boundaries and that are drilled and completed in one or more sources of supply within the covered lands. All such applications shall contain a proposed agreement on the formula for the sharing of costs, production and royalty from the affected drilling units.
  - 1) However, if the majority in interest of working interest owners agree to share a proposed well between two or more adjoining drilling units, which have been previously integrated, utilizing the below methodology for sharing of costs, production and royalty among the affected drilling units, or if the well encroaches upon the drilling unit boundaries specified by this rule, the Director or his designee is authorized to approve the application administratively utilizing the following methodology:
    - A) The sharing of well costs and the proceeds of production from one or more separately metered wells, between the affected drilling units, shall be based on an allocation based on an area (acreage) calculation as specified below.
    - B) For horizontal wells, an area (equal to the setback footage for that source of supply as specified in section (h), (i), (j) or (k) above) along and on both sides of the entire length of the horizontal perforated section of the well, and including an

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area formed by a radius (equal to the setback footage for that source of supply as specified in section (h), (i), (j) or (k) above) from the beginning point of the perforated interval and from the ending point of the perforated interval. The area formed shall be calculated for each such separately metered well and referred to as the “calculated area”.

- C) For vertical wells, an area (equal to the setback footage for that source of supply as specified in section (h), (i), (j) or (k) above) extending around the perforated interval as defined in General Rule B-3, shall be calculated for each such separately metered well and referred to as the “calculated area”.
  - D) Each calculated area shall be allocated and assigned to each drilling unit according to that portion of the calculated area occurring within each drilling unit.
- 2) Each such application for utilizing the above methodology shall be submitted on a form prescribed by the Director of Production and Conservation, accompanied by an application fee of \$500.00 and include the name and address of each owner, as defined in A.C.A. § 15-72-102(9), within each of the drilling units in which the proposed well is to be drilled and/or completed.
  - 3) Concurrently with the filing of an application utilizing the above methodology, the applicant shall send to each owner specified in subsection (p)(2) above a notice of the application filing and verify such mailing by affidavit, setting out the names and addresses of all owners and the date(s) of mailing.
  - 4) Any owner noticed in accordance with subsection (p)(3) above shall have the right to object to the granting of such application within fifteen (15) days after the receipt of the application by the Commission. Each objection must be made in writing and filed with the Director. If a timely written objection is filed as herein provided, then the applicant shall be promptly furnished a copy and the application shall be denied. If the application is denied under this section, the applicant may request to have the application referred to the Commission for determination, in accordance with applicable state laws and General Rules A-2 and A-3, except that no additional filing fee is required.
  - 5) An application may be referred to the Commission for determination when the Director deems it necessary that the Commission make such determination for the purpose of protecting correlative rights of all parties. Promptly upon such determination, and not later than fifteen (15) days after receipt of the application, the Director shall give the applicant written notice, citing the reason(s) for denial of the application under this rule and the referral to the full Commission for determination, in accordance with applicable state laws and General Rules A-2 and A-3.
  - 6) If the Director has not notified the applicant of the determination to refer the application to the Commission within the fifteen (15) day period in accordance with the foregoing provisions, and if no objection is received at the office of the Commission within the fifteen (15) days as provided for in subsection (p)(4), the application shall be approved and a drilling permit issued.
  - 7) Upon receipt of the drilling permit, the applicant shall give the other working interest parties written notice that the drilling permit has been issued. The working interest parties, who have not previously made an election, shall have 15 days after receipt of said notice within which to make an election to participate in the well or be deemed as

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electing non-consent and subject to the non-consent penalty set out in the existing Joint Operating Agreement(s) covering their respective drilling unit or units.

- 8) Following completion of the well and prior to the issuance by the Commission of the Certificate of Compliance to commence production, the final location of the perforated interval shall be submitted to the Commission to verify the proposed portion of the calculated area occurring within each drilling unit as specified in subsection (p)(1) above.
- (q) The Commission shall retain jurisdiction to consider applications, brought before the Commission, from a majority in interest of working interest owners in two or more adjoining governmental sections seeking the authority to combine such adjoining governmental sections into one drilling unit for the purpose of developing one or more unconventional sources of supply. In any such multi-section drilling unit, production shall be allocated to each tract therein in the same proportion that each tract bears to the total acreage within such drilling unit.
- (r) The Commission shall retain jurisdiction to consider applications, brought before the Commission, from a majority in interest of working interest owners in a drilling unit seeking the authority to omit any lands from such drilling unit that are owned by a governmental entity and for which it can be demonstrated that such governmental entity has failed or refused to make such lands available for leasing.

(Source: new rule June 15, 2008; amended January 22, 2009)

## **GENERAL RULE C - OIL**

### **RULE C-1 - FIELDS OR POOLS IN WHICH PRODUCTION WILL BE CONTROLLED**

All common sources of supply of crude oil discovered after January 1, 1937, if so found necessary by the Commission, will have the production of oil controlled or regulated as provided in Act 105, General Assembly, 1939.

(Source: 1991 rule book)

### **RULE C-2 - REPORTS BY PRODUCERS**

- A. Each producer of oil in any field, and each producer of hydrocarbons in liquid form at the well head by ordinary production methods from a gas well in any field, shall execute in triplicate and file with the Oil and Gas Commission, El Dorado, Arkansas, a "Producer's Certificate of Compliance and Authorization to Transport Oil or Gas from Lease," for each lease that is capable of producing on or after July 15, 1955.

After the above date, whenever there shall occur a change in operating ownership of any lease in a field within the State of Arkansas, or whenever there shall occur a change of transporter from any lease in a field within the State of Arkansas, a new "Producer's Certificate of Compliance and Authorization to Transport Oil or Gas from Lease," shall be executed and filed in accordance with instructions appearing on such form, except that in the case of temporary change in transporter involving less than the allowable for one month, the producer may, in lieu of filing a new certificate, notify the Oil and Gas Commission at El Dorado, Arkansas, and the transporter then authorized by certificate on file with the Oil and Gas Commission, by letter of the estimated amount of oil to be moved by the temporary transporter and the name of such temporary transporter and a copy of such notice shall also be furnished such temporary transporter. In no instance shall the temporary transporter move any greater quantity of oil than the estimated amount shown in said notice.

The "Producer's Certificate of Compliance and Authorization to Transport Oil or Gas from Lease," when properly executed and approved by the Oil and Gas Commission, shall constitute authorization to the pipeline or other carrier to transport oil from the lease named therein, and shall remain in force and effect until:

- (1) The operating ownership of the lease changes, or
- (2) The transporter is changed, or
- (3) The permit is cancelled by the Oil and Gas Commission.

Where a transporter disconnects from a particular lease or ceases to remove oil therefrom and another transporter connects to such lease or begins to take oil therefrom, during a month, the transporter who ceases to take oil shall furnish to the connecting transporter a certified statement under oath, showing: the legal quantity of oil on hand 7 a.m., the first day of such month; the scheduled allowable to the date disconnected; and the quantity of oil moved from the particular lease during the current month. In such case the producer shall furnish to the connecting transporter a certified statement under oath showing the lease stock on hand 7 a.m., the date of new connection. No connecting transporter shall move oil from any such lease until after it shall have received such

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statements, except with the written permission of the Oil and Gas Commission or their authorized agent.

Each producer is prohibited from delivering illegal oil to any transporter, and each transporter is prohibited from removing any illegal oil from producer's lease tanks. Each transporter shall maintain necessary records of lease allowables and quantities of oil removed from the leases to which he is connected, whereby he can determine the calculated quantity of legal oil on hand at the close of each calendar month with respect to such leases. The calculated quantity of legal oil on hand with respect to any lease shall be determined for each succeeding month by adding to the quantity of legally produced oil on hand at the first of the month, the scheduled allowable quantity of oil for the respective lease for the current month, as established by the Oil and Gas Commission, less the quantity of oil removed from the respective lease tanks during the current month. If the calculated balance so determined is less than the actual gauged quantity on hand as reported by the producer on "Producer's Monthly Report," the transporter shall not remove during the following month any part of the oil on hand on the first day of the month in excess of the calculated legal balance so established. If the actual quantity of oil on hand with respect to a particular lease equals or is less than the quantity of legal oil established by the above method, the transporter may remove any part or all of such quantity of oil during the current month. Where actual quantity of oil on hand with respect to a particular lease is less than the calculated quantity of legal oil established by the above method, the transporter, in determining the quantity of legal oil for the next succeeding month, shall substitute the actual quantity on hand for the calculated quantity on hand. Where there is more than one transporter moving oil from the same lease, the producer and transporters are required to furnish to each other information as the quantity of oil on hand, the quantity transported from lease tanks and any additional information necessary to establish to the satisfaction of each person involved the legal status of the oil produced.

- B. Each producer of oil in any controlled oil field, and each producer of hydrocarbons in liquid form at the wellhead by ordinary production methods from a gas well in any controlled gas field, shall furnish for each calendar month a "Producer's Monthly Report", setting forth complete information and data indicated by such forms representing oil and/or liquid hydrocarbons produced from each lease operated by said producer in controlled fields in the State of Arkansas. Such report for each month shall be prepared and filed according to the instructions on the form, on or before the 15<sup>th</sup> of the next succeeding month.

(Source: 1991 rule book)

### **RULE C-3 - RESERVOIR SURVEYS**

By special order of the Commission periodical surveys of the reservoirs containing oil and gas in the state will be made. These surveys will be thorough and complete and shall be under the supervision of the petroleum and natural gas engineers of the Commission. The surveys shall be an investigation into the condition of the reservoirs containing oil and gas and an investigation into the practices and methods employed in obtaining oil and gas from the reservoir. These surveys and investigations shall specifically include the volume and source of crude oil and natural gas; the reservoir pressure of the reservoir as an average; the area of the regional or differential pressure; stabilized gas-oil ratios and the producing characteristics of the field as a whole and the individual wells within the field.

(Source: 1991 rule book)

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### **RULE C-4 - OPERATORS TO ASSIST IN RESERVOIR SURVEYS**

All operators of oil wells are required to permit and assist the agents of the Oil and Gas Commission in making any and all tests including bottom hole pressure and gas-oil ratio determinations that may be required by the Oil and Gas Commission on any or all of his wells.

(Source: 1991 rule book)

### **RULE C-5 - OIL ASSESSMENT**

Oil conservation assessment, in order to pay the costs in connection with oil and gas conservation administration, not otherwise provided for, shall be made as follows:

- A. There shall be assessed a charge not to exceed fifty (50) mills (Acts 2001, No. 1188, General Assembly) on each barrel of crude oil or petroleum marketed or used from a field or pool each month. Said charge and assessment shall only apply to the first purchase or use of oil from the producer and not to subsequent transfers commonly referred to as "tenderships." Effective on and after January 1, 2002, the oil conservation assessment shall be 43 mills.
- B. The first purchaser, user or holder for a period of thirty days of the production, who is hereby defined to be the person holding the Division Order and issuing checks to pay for any working interest or royalty interest, shall before issuing checks or otherwise paying for the production, deduct the amount assessed per barrel of oil marketed, used or held for a period or thirty (30) days from the lease each month, and remit the amounts.
- C. Said remittance shall be made by the fifteenth of the month following the month in which the oil was purchased in a single check if the purchaser so desires, and the only accounting necessary by the purchaser shall be the show the deductions under this order on the regular payment statements to producers and royalty owners or parties in interest.
- D. Any person purchasing oil in this state at the well, under any contract or agreement requiring payment for such production to the respective owners thereof, in respect of which production any sums assessed under this rule as payable to the Commission, is hereby authorized, empowered and required to deduct from any sum so payable to any such person the amount due the Commission by virtue of any such assessment and remit that sum to the Commission in the manner stated. Further, any person taking oil from any well in this state for use or resale, in respect of which production any sums assessed under the provisions of this rule are payable to the Commission, shall remit any sum so due to the Commission in accordance with these rules and regulations.

(Source: 1991 rule book; amended November 27, 2001)

### **RULE C-6 - MONTHLY REPORTS-COSTS**

The Commission shall prescribe a reasonable and necessary charge or fee per copy and per subscription for notices and reports prepared and published by the Commission, deemed necessary to reimburse the Commission for the cost thereof.

(Source: 1991 rule book)

### **RULE C-7 - DISPOSAL OF SALT WATER**

Rule Repealed Effective July 17, 2009

**RULE C-8 - FLUID REPRESSURING AND WATER FLOODING OF OIL AND GAS PROPERTIES**

A. Application and Approval

The owner or operator of any well may inject water or other liquids under pressure into the formation containing oil or gas for the purpose of obtaining oil or gas from the reservoir, upon application to and approval by the Commission.

B. Casing and Cement

Wells used for the injection of water into the producing formation or repressuring wells shall be cased with sound casing so as not to permit leakage and the casing cemented in such manner that damage will not be caused to oil, gas or fresh water resources. Newly constructed wells shall be completed as follows:

1. Set and cement surface casing 250 feet below the lowermost USDW and cement the long string casing for at least 250 feet above the injection zone; or
2. Set and cement surface casing through the base of the fresh water and cement the long string casing back to the surface.

The mechanical integrity of each new injection well shall be established by pressure testing or such other method as the Commission first approves and the mechanical integrity of each injection well shall be re-tested periodically thereafter at least every five (5) years.

C. Application, Contents, Notice, Objection, Hearing, and Approval

1. No liquid shall be injected into a well for flooding purposes until so ordered by the Commission pursuant to application, and notice as herein required.
2. The application shall be verified and filed with the Commission, showing:
  - (a) the location of the Intake Well
  - (b) the location of oil and gas wells and dry holes, the names of operators of producing wells located within one-half mile of the Intake Well
  - (c) the formation from which wells are producing or have produced
  - (d) the name, description and depth of the formations to be flooded
  - (e) the open hole depths of each formation to be flooded
  - (f) the elevations of the top of the oil or gas bearing formation in the Intake Wells and the wells producing from the same formation within a one-half (1/2) mile radius of the Intake Well
  - (g) the log of the Intake Well or such information as is available
  - (h) descriptions of the Intake Well casing

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- (i) descriptions of the liquid, stating the kind, where obtained and the estimated amounts to be injected daily
  - (j) the names and addresses of the operators
  - (k) each application shall be accompanied by evidence satisfactory to the Commission of the financial responsibility of the applicant to plug an abandon the injection well or wells by the method and procedure required by the Commission or the applicant shall be required to furnish a good and sufficient bond therefor in an amount to be determined by the Commission but not to exceed the principal sum of One Hundred Thousand and No/100 Dollars (\$100,000.00) conditioned upon the performance of such duty to plug each well to be abandoned.
  - (l) such other information as the Commission may require to ascertain whether the flooding may be safely and legally made.
3. Applications may be made to include the use of more than one Intake Well on the same lease or on more than one lease.
  4. Applications shall be executed by all operators who are to participate in the proposed flooding plan; or by the Operator designated in the Unit Operating Agreement as the Operator thereof.
  5. Notice of the application shall be given by the applicant by one (1) publication in a legal newspaper having a general circulation in the county, or in each county, if there shall be no more than one, in which the lands embraced within the application are situated, and by mailing or delivering a copy of the application to each operator of producing and drilling wells within a one-half mile radius of the proposed disposal well. Such notice shall be published, mailed or delivered at least ten (10) days, but not more than thirty (30) days, prior to the date on which the application is mailed to or filed with the Commission. The cost of such publication shall be paid for by the applicant therein.
  6. Objections or complaints, stating the reasons why the proposed plan as contained in the application may cause damage by oil, gas or fresh water resources must be filed within ten days after the application is filed.
  7. In the event any such objection or complaint is filed with the Commission on its own motion deems that there should be a hearing on the application, a hearing shall be had after reasonable notice of the time, place and subject matter of such hearing has been given to the parties in interest.
  8. Orders approving the flooding plan will not be made within ten days of the filing of the application unless the written consent of all persons entitled to notice is filed with the Commission within such time.
  9. An annual assessment of One Hundred Dollars (\$100.00) for each injection well must be paid on or before July 1<sup>st</sup> of each year.

### D. Notice of Commencement and Discontinuance of Flooding Operations

1. Immediately upon the commencement of flooding operations, the applicant shall notify the Commission of the same and the date of commencement.

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2. Within ten days after the discontinuance of flooding operations the applicant or the one in charge thereof shall notify the Commission of the date of such discontinuance and the reasons therefor.
3. Before any Intake Well shall be abandoned, notice shall be served on the Commission and the same procedure shall be followed in the plugging of such wells as provided for the plugging of oil and gas wells.

### E. Records

The owner or operator of an Intake Well shall keep an accurate record of the amount of liquid injected into the Intake Well and such information shall be furnished the Commission monthly.

(Source: 1991 rule book, amended (Order No. 1-98) January 27, 1998)

## **RULE C-9 - PRESSURE MAINTENANCE OR REPRESSURING WITH GAS OF OIL AND GAS PROPERTIES**

### A. Application and Approval

The owner or operator of any well may inject gas under pressure into the formation containing oil or gas for the purpose of obtaining oil or gas from the reservoir, upon application to and approval by the Commission.

### B. Casing and Cement

Wells used for the injection of gas into the producing formation or repressuring wells shall be cased with sound casing so as not to permit leakage and the casing cemented in such manner that damage will not be caused to any oil, gas or fresh water resources. Newly constructed wells shall be completed as follows:

1. Set and cement surface casing 250 feet below the lowermost USDW and cement the long string casing for at least 250 feet above the injection zone.
2. Set and cement surface casing through the base of the fresh water and cement the long string casing back to the surface.

The mechanical integrity of each new injection well shall be established by pressure testing or such other method as the Commission first approves and the mechanical integrity of each injection well shall be retested periodically thereafter at least every five (5) years.

### C. Application, Contents, Notice, Objection, Hearing, and Approval

1. No gas shall be injected into a well for pressure maintenance or repressuring purposes until so ordered by the Commission pursuant to application, and notice as herein required.
2. The application shall be verified and filed with the Commission showing:
  - (a) the location of the Intake Well
  - (b) the location of all oil and gas wells including abandoned and drilling wells and dry holes, and the names of land owners and lessees within one-half mile of the Intake Well;
  - (c) the formations from which wells are producing or have produced;

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- (d) the name, description and depth of the formations to be repressured;
  - (e) the open hole depths of each formation to be repressured;
  - (f) the elevations of the top of the oil or gas bearing formation in the Intake Well and the wells producing from the same formation within a one-half mile radius of the Intake Well;
  - (g) the log of the Intake Well or such information as is available;
  - (h) descriptions of the Intake Well casing;
  - (i) descriptions of the gas, stating the kind, where obtained and the estimated amounts to be injected daily;
  - (j) the names and addresses of the operators;
  - (k) each application shall be accompanied by evidence satisfactory to the Commission of the financial responsibility of the applicant to plug and abandon the injection well or wells by the method and procedure required by the Commission or the applicant shall be required to furnish a good and sufficient bond therefor in an amount to be determined by the Commission but not to exceed the principal sum of One Hundred Thousand and No/100 Dollars (\$100,000.00) conditioned upon the performance of such duty to plug each well to be abandoned;
  - (l) such other information as the Commission may require to ascertain whether the repressuring may be safely and legally made.
3. Applications may be made to include the use of more than one Intake Well on the same lease or on more than one lease.
  4. Applications shall be executed by all operators who are to participate in the proposed repressuring plan.
  5. Notice of the application shall be given by the applicant by one (1) publication in a legal newspaper having a general circulation in the county, or in each county, if there shall be more than one, in which the lands embraced within the application are situated, and by mailing or delivering a copy of the application of each operator of producing and drilling wells within a one-half mile radius of the proposed disposal well. Such notice shall be published, mailed or delivered at least ten (10) days, but not more than thirty (30) days, prior to the date on which the application is mailed to or filed with the Commission. The cost of such publication shall be paid for by the applicant therein.
  6. Objections or complaints, stating the reasons why the proposed plan as contained in the application may cause damage to oil, gas, or fresh water resources must be filed within ten days after the application is filed.
  7. In the event any such objection or complaint is filed or the Commission on its own motion deems that there should be a hearing on the application, a hearing shall be had after reasonable notice of the time, place and subject matter of such hearing has been given to the parties in interest.

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8. Orders approving the repressuring will not be made within ten days of the filing of the application unless the written consent of all persons entitled to notice is filed with the Commission within such time.

### D. Notice of Commencement and Discontinuance of Repressuring Operations

1. Immediately upon the commencement of repressuring operations, the applicant shall notify the Commission of the same and the date of commencement.
2. Within ten days after the discontinuance of repressuring operations the applicant or the one in charge thereof shall notify the Commission of the date of such discontinuance and the reasons therefor.
3. Before any Intake Well shall be abandoned, notice shall be served on the Commission and the same procedure shall be followed in the plugging of such well as providing for the plugging of oil and gas wells.

### E. Records

The owner or operator of an Intake Well shall keep an accurate record of the amount of gas injected into the Intake Well and such information shall be made available to the Commission or its agents.

### F. Individual Cases

The Commission will make such special orders, rules and regulations for the individual case as the conditions may justify.

(Source: 1991 rule book, amended (Order No. 1-98) January 27, 1998)

## **GENERAL RULE C-10 - ESTABLISHMENT OF WELL SET-BACK REQUIREMENTS FOR OIL PRODUCTION WELLS**

- a) This rule pertains to oil well setback provisions specified in certain established field rules in Ashley, Bradley, Calhoun, Columbia, Hempstead, Lafayette, Miller, Nevada, Ouachita, and Union Counties.
- b) In all established field rules covered by this general rule, all oil well set back provisions which are measured from a boundary other than the drilling unit boundary, and which are commonly referred to as “bull’s-eye” or “race-track” locations for:
  - 1) ten (10) acre drilling units, described as a quarter (1/4) quarter (1/4) quarter (1/4) of a governmental section;
  - 2) twenty (20) acre drilling units, described as the east one-half (E/2), west one-half (W/2), north one-half (N/2) or south one-half (S/2) of a quarter (1/4) quarter (1/4) of a governmental section;
  - 3) forty (40) acre drilling units, described as a quarter (1/4) quarter (1/4) of a governmental section; and

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- 4) eighty (80) acre drilling units described as the east one-half (E/2), west one-half (W/2), north one-half (N/2) or south one-half (S/2) of a quarter (1/4) of a governmental section;

are set at two hundred and eighty (280) feet from the drilling unit boundary and all existing “bull’s-eye” or “race-track” field rule setback requirements for the above drilling units are abolished.

- c) Established field rules with well setback requirements less than two hundred and eighty (280) feet from the above drilling unit boundaries, shall remain unchanged.
- d) Applications for exceptions to these well location provisions, relative to a drilling unit boundary or other location in a common source of supply, may be approved by the Commission after notice and a hearing in accordance with General Rules A-2, A-3 and other applicable hearing procedures.

(Source: new rule February 19, 2009)

**GENERAL RULE D - GAS**

**RULE D-1 - SHOW CAUSE FOR WASTE OF CASINGHEAD GAS**

Rule Repealed Effective October 16, 1953.

**RULE D-2 - POTENTIAL OPEN FLOW**

Rule Repealed Effective February 19, 2009

**RULE D-3 - PRESSURE TEST**

Rule Repealed Effective February 19, 2009

**RULE D-4 - SUPERVISION OF OPEN FLOW AND PRESSURE TESTS**

Rule Repealed Effective February 19, 2009

**RULE D-5 - DURATION OF TESTS**

Rule Repealed Effective February 19, 2009

**RULE D-6 - NOTICE OF TESTS**

Rule Repealed Effective February 19, 2009

**RULE D-7 - NATURAL GAS TO BE METERED**

a) Wellhead Production Meters:

- 1) For protection of correlative rights of all parties, the operator of a natural gas well shall meter or caused to be metered all natural gas produced from a well, utilizing a standard industry meter approved by the American Gas Association and capable of recording accurately the volume of natural gas produced at each well, unless another methodology, approved by the Director, is utilized to provide for proper production allocation back to the individual well from a central point production meter or central point sales meter, which ever meter occurs first.
- 2) All required meters shall be calibrated at least once per calendar year. The records of such calibration shall be maintained or made available by the operator of the well and shall be available for inspection by the Commission. Such records shall be maintained by the operator for a period of at least five (5) years.
- 3) All required meters shall be accessible and viewable by the Commission for the purpose of monitoring daily, monthly and/or cumulative production volumes from individual wells.

b) Sales Meters:

All meters, measuring the volume of gas sold, shall be calibrated at least once per year. The Director or his designee shall be notified not less than seventy-two (72) hours prior to conducting

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the meter calibration, so as to allow the Commission to witness such calibration. The records of such calibration shall be maintained by the person responsible for the meter and shall be available for inspection by the commission. Such records shall be maintained by the person responsible for the meter for a period of 5 years.

(Source: 1991 rule book; amended January 22, 2009)

### **RULE D-8 – MONTHLY NATURAL GAS PRODUCTION REPORTS**

- a) All natural gas produced and sold from oil wells and from gas wells within the State of Arkansas, except natural gas taken into a gasoline, cycling or other extraction plant gathering system, which is required to be reported in accordance with the provisions of Rule F-3, shall be reported by the operator monthly in a form prescribed by the Director. In cases where gas is sold by any person other than the operator, the operator shall remain responsible for reporting all production sold, unless the operator notifies the Director in writing of the name and address of the person other than the operator who has sold gas, the specific month or months for which the person other than the operator who sold gas has failed to report the necessary information to the operator and the approximate well ownership percentage of the person other than the operator who has sold gas. Any person other than the operator who sold gas and failed to report the necessary information to the operator shall then be responsible for reporting the monthly production sold, not otherwise reported by the operator, to the commission.
- b) Monthly reports specifying the amount of natural gas produced and sold are required to be filed for each individual producing zone or approved commingled producing zones within a well, regardless of whether or not there was natural gas produced and sold during the month. The reports shall be filed on a form prescribed by the Director and shall be filed with the commission sixty (60) days after the end of each month. Reports for inactive wells shall continue to be submitted until such time as the commission determines monthly reports are no longer required in accordance with applicable commission rules and regulations.
- c) Where natural gas is delivered to a gasoline extraction plant, cycling plant or any other plant at which butane, propane condensate, kerosene, oil, or other liquid products are extracted from natural gas, such gas shall be reported in accordance with General Rule F-3.

(Source: 1991 rule book; amended November 16, 2008; amended August 21, 2009)

### **RULE D-9 - GAS-OIL RATIO**

No well shall be permitted to produce gas in excess of the maximum ratio determined for a common source of supply unless all gas produced in excess thereof is returned to the common source of supply from which it was produced.

(Source: 1991 rule book)

### **RULE D-10 - GAS-OIL RATIO SURVEYS AND REPORTS**

By special order the Commission will authorize periodic gas-oil ratio surveys and reports to be filed on forms furnished by the Commission and including thereon for each well:

Field, reservoir and county in which the well is located; lease name and well number; elevation; producing formation; size and length of tubing; size and length of casing (oil string); size choke (if pumping well, so designate); tubing pressure, casing pressure, and trap pressure; production of water; oil

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and gas (in thousands of cubic feet) during the test; gas-oil ratio; and the A.P.I. gravity of the oil; duration of test.

All data requested is for each well separately and the gas-oil ratio shall be determined according to the following procedure:

(1) FLOWING WELLS CONTINUOUSLY PRODUCED:

The oil flow shall be stabilized during the 24-hour period immediately preceding the test at a rate fixed as nearly as possible to its allowable as shown on the Commission's current oil proration schedule. Major adjustments in the rate of flow shall be made during the first 12 hours of the stabilization period and only minor adjustments made during the last 12 hours. No adjustments shall be made during the time in which the well is being tested and the rate of production during the test shall not be less than the well's daily allowable. Should gas be withdrawn from the casing in an attempt to maintain a fluid seal, or for any other reason, this volume of gas must be added to gas produced through tubing in computing the gas-oil ratio.

(2) FLOWING WELLS INTERMITTENTLY (STOP-COCKED) PRODUCED:

In computing the operating gas-oil ratio the total volume of gas and the total barrels of oil that are produced in order to obtain the daily oil allowable must be used regardless of the flowing time in the 24-hour period.

(3) GAS LIFT OR JET WELLS:

The total volume of gas to be used in computing the operating gas-oil ratio is the total output volume minus the total input volume.

(4) PUMPING WELLS:

Should gas be withdrawn from the casing in an attempt to maintain a fluid seal, or for any other reason, this volume of gas must be added to gas produced through tubing in computing the gas-oil ratio.

(Source: 1991 rule book)

### **RULE D-11 - PIPELINE MAPS**

Pipeline maps indicating the location, size, extensions and any portions abandoned or not used shall be filed at the request of the Commission.

(Source: 1991 rule book)

### **RULE D-12 - GAS UTILIZATION**

After the expiration of seven (7) days from the time of encountering gas in a gas well, no gas from such well shall be permitted to escape, into the air, and all gas produced therefrom shall be utilized for the following purposes:

(A) No gas well gas shall be utilized except for:

- (1) Light or fuel.

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- (2) Efficient chemical manufacturing.
- (3) Bona fide introduction of gas into oil, or gas bearing horizon, in order to maintain or increase the reservoir pressure or otherwise increase the ultimate recovery of oil or gas from such horizon.
- (4) The extraction of natural gasoline therefrom when the residue is returned to the horizon from which it is produced.

(B) Casinghead gas may be used for any beneficial purpose.

(C) Any producer of gas may use the same as gas lift in the bona fide production of oil where such gas is not used in excess of ten thousand (10,000) cubic feet per barrel of oil produced; provided that in order to prevent waste in any case where the facts in such warrant it, the Commission may permit the use of additional quantities of gas to lift oil, provided all such gas so used in excess of ten thousand (10,000) cubic feet for each barrel of oil shall be processed for natural gasoline when same is reproduced.

(Source: 1991 rule book)

### **RULE D-13 - USE OF GAS FOR OTHER THAN LIGHT OR FUEL**

Before any person shall engage in the utilization of gas for purposes other than light and fuel he shall file with the Commission a verified statement setting for the name and addresses of the person or persons who are to engage in the proposed operations, the location of the plant of plants where the proposed utilization is to be carried on, the kind and probable volume of the gas that is to be used, the reservoir from which it is to be taken, the general type of the process, and the kind and condition of the equipment that is to be used, the results to be obtained in so far as such results can be reasonably anticipated, and such other pertinent facts as the Commission may require. Upon filing said statement the Commission may, if it deems the same necessary, conduct a public hearing with reference to the proposed utilization in order to determine whether such utilization or the use of the proposed processes and equipment will constitute waste.

(Source: 1991 rule book)

### **RULE D-14 - GAS ASSESSMENT**

An assessment to pay the conservation expenses and other costs in connection with administration of gas conservation, not otherwise provided for, may be made as follows:

- (A) There shall be assessed against the persons involved, a charge not to exceed ten (10) mills (Acts 2001, No. 1188 General Assembly) on each one thousand (1,000) cubic feet of gas produced, sold, marketed or used each month from a gas well. Said assessments shall apply only to the first purchase of gas, or the original taking from the well, and not the subsequent transfers, commonly referred to as "tenderships." Effective on and after January 1, 2002, the gas conservation assessment shall be 9 mills.
- (B) The first purchaser of the production, who is hereby defined to be the party paying for either or both any working interest or royalty interest shall, before paying for the production, deduct nine (9) mills for every thousand cubic feet of gas produced and removed from the lease each month, and remit the amounts so deducted to the Commission at the same time and periods as said purchasers make their regular gas payments.

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- (C) Said remittances may be made each month in a single check if the purchaser so desires and no accounting by the purchaser shall be required except to show all deductions on the regular payment statements to producers and royalty owners or the parties in interest.
- (D) The assessment herein provided for shall not apply to gas which is being returned to the ground for repressuring or pressure maintenance purposes within the field, but shall apply only to such gas as is produced and removed from the lease and returned to the ground for storage purposes.
- (E) Any person purchasing gas in this state at the well, under any contract or agreement requiring payment for such production to the respective owners thereof, in respect of which production any sums assessed under these rules are payable to the Commission, is hereby authorized, empowered and required to deduct from any sum so payable to any such person the amount due the Commission by virtue of any such assessment and remit that sum to the Commission.

Further, any person taking gas from any well in this state for use or resale, in respect of which production any sums assessed under the provisions of this rule are payable to the Commission, shall remit any sum so due to the Commission in accordance with these rules and regulations.

(Source: 1991 rule book; amended November 27, 2001)

### **RULE D-15 - MEASURING GAS AT CUSTODY TRANSFER POINTS**

- (a) No meter or meter run used for measuring gas at custody transfer points will be equipped with a manifold which will allow gas flow to be diverted or bypassed around the metering element with the following exceptions:
  - (1) Equipment which permits the changing of the orifice plate without bleeding the pressure off the gas meter run shall not be considered a bypass if flow is bypassed only during normal maintenance or verification operations.
  - (2) A manifold having block valves on each end of the meter run, and two bypass valves with a bleeder between the bypass valves. During normal operations, the two bypass valves will be closed, with at least one bypass valve sealed, and the bleeder valve will be open and unplugged.
- (b) Whenever the manifold described in Section (a)(2) is employed, a notation will be made on the orifice meter chart any time a seal is broken or replaced. This notation will include the seal number broken, the seal number replaced, the reasons for this action, and graphic representation of the estimated gas flow during the time the meter is out of service.
- (c) The party choosing to utilize, construct, or operate a bypass of the type described in Section (a)(2) will assume all risks, responsibilities, and liabilities associated with said bypass.
- (d) Existing meters used for measuring gas at custody transfer points shall be retrofitted in conformity herewith within twenty-four (24) months from the effective date hereof; provided, however, that meters to be installed at additional transfer points from and after the effective date hereof shall be in conformity herewith.

(Source: 1991 rule book)

### **RULE D-16 - BACK PRESSURE TESTS FOR NATURAL GAS PRODUCTION ALLOWABLE DETERMINATION**

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a) Applicability

All natural gas wells defined as dry gas wells are subject to this rule, unless the well has received temporary abandonment status in accordance with General Rule B-7. Wells producing natural gas in conjunction with crude oil or condensate are not subject to the provisions of this rule.

b) Definitions

(1) AOF shall mean absolute open flow at a pressure of 14.65 psia and slope of 45 degrees (n=1).

(2) "PRU" means production reporting unit, and for purposes of this rule is either an individual producing zone or approved commingled producing zones within a well.

c) All new PRUs, which include zone recompletions or workovers, regardless of the amount of daily production, are subject to an initial one (1) point test, which shall be run within ten (10) days after a new PRU has commenced production. The Permit Holder of the gas well shall provide the Commission not less than seventy-two (72) hour notice in advance of such test, which may be witnessed by a representative of the Commission. Except as provided for in General Rule B-43(1) or other Commission general rules regulating production allowables, the production allowable for such PRU shall be calculated based upon the AOF. The AOF shall be calculated based upon the deliverability established by an initial one (1) point test by flowing the PRU for a period of twenty-four (24) hours through the production facilities into the pipeline. A minimum pressure draw down of thirty percent (30%) will be required. If such draw down is not achieved over twenty-four (24) hours, then the test may continue for up to 72 hours to measure deliverability or deliverability may be calculated if the required drawdown is not achieved. A retest may be conducted at any time when requested by the Permit Holder if the Commission results are questioned by the Permit Holder or when the Permit Holder is directed by the Commission to conduct a retest.

d) All existing PRUs, with an AOF in excess of 1 MMCF per day shall be tested within twelve (12) months and ten (10) days from the date of the most recent test to determine the AOF and an allowable. The Permit Holder of the gas well shall provide the Commission not less than seventy-two (72) hour notice in advance of such test, which may be witnessed by a representative of the Commission. Except as provided for in General Rule B-43(1) or other Commission general rules regulating production allowables, the production allowable for such PRU shall be calculated based upon the AOF utilizing the methodology as specified in subparagraph (c) above. The results of the test shall be used to determine the production allowable, which shall commence on the date of the test. If the test is witnessed by the Commission, the test results shall be forwarded to the Permit Holder for review. A retest may be conducted at any time when requested by the Permit Holder if the Commission results are questioned by the Permit Holder or when the Permit Holder is directed by the Commission to conduct a retest. If the test is not witnessed, the test results shall be submitted to the Commission within 10 days after the test is run. All PRUs, subject to be tested under the provisions of this paragraph, except as otherwise provided for in this rule or General Rule B-43 (k) (1), shall continue to be subject to an annual test, and a production allowable determination, in accordance with sub-paragraph (f) below, until such time that the PRU has an AOF of less than 1MMCF per day, as evidenced by an annual test. Wells which are assessed an exceptional location penalty, shall remain subject to an annual test and allowable determination until the annual well production is 75 MCF per day AOF or less.

e) All existing PRUs, except PRUs subject to an exceptional location penalty, with an AOF of less than 1 MMCF per day shall not be subject to an allowable determination as calculated in paragraph (k) below, but shall be tested within twelve (12) months and ten (10) days from the

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date of the most recent test to determine and report, on a form prescribed by the Director, a 24 hour shut-in pressure, deliverability and absolute open flow rate. The collection of the 24 hour shut-in pressure, deliverability and absolute open flow rate information is not required to be witnessed by a representative of the Commission. The 24 hour shut-in pressure, deliverability and absolute open flow rate information shall be filed with the Commission within ten (10) days after the test is run. The Commission shall have the right to require PRUs covered by this subparagraph, to have the 24 hour shut-in pressure, deliverability and absolute open flow rate information resubmitted if for any reason the previously submitted information appears to be inaccurate. In that event, the Commission may require the collection of another 24 hour shut-in test which may be witnessed by a Commission representative.

- f) All PRUs subject to an allowable, and tested under the provisions of this rule, which produce in excess of the assigned annual production allowable, must be shut-in on the annual balancing date, until all overproduction is eliminated.
- g) All PRUs which are assessed an exceptional location penalty, and tested under the provisions of this rule, and which produce in excess of the assigned monthly production allowable, balanced quarterly, must be shut-in immediately after the Permit Holder knows or reasonably should have known that the PRU has produced in excess of the assigned quarterly production allowable, and remain shut-in until all overproduction is eliminated, utilizing the last data from the subsequent year test to determine the length of time to be shut-in. However, any PRUs which produce less than eight (8) months during the applicable time frame specified in subparagraphs c), d) and e) above, shall be exempt from the quarterly balancing requirement of this subparagraph g), and shall balance subject to the annual balancing requirement specified in subparagraph f) above.
- h) All PRUs which are overproduced on the assigned balancing date and which fail to shut-in on the assigned balancing date, may be assessed a fine not to exceed two thousand five hundred (2,500) dollars per day for every day the well produced over the balancing date and may be subject to further enforcement actions in accordance with General Rule A-5, and Ark. Code Ann. § 15-72-401 through 15-72-406.
- i) Wells tested for purposes of establishing marginal well determination, in accordance with General Rule A-7, are required to be witnessed by a commission representative. The operator shall provide at a minimum, seventy two (72) hours notice prior to conducting the test, and shall only conduct a test if a commission representative is present.
- j) PRU allowables are non-transferable between wells.
- k) All tests, required by this rule, shall be conducted as follows:
  - (1) Before a test is started, the wellbore should be cleared of any accumulated fluids. The PRU shall be shut-in for a minimum of twenty-four (24) hours for a one (1) point test. The pressure shall be measured with a dead-weight pressure gauge or a calibrated test gauge approved by the Commission. All flow rate measurements shall be obtained by the use of an orifice meter or other authorized metering device in good operating condition previously approved by a representative of the Commission. The Commission shall be furnished a written explanation setting forth in detail the reasons why such data cannot be obtained in accordance with this procedure.
  - (2) Methods for allowable calculations for new PRUs as specified in subparagraph (c) above, or existing PRUs with an AOF of greater than or equal to 1 MMCF per day as specified in paragraph (d) above, or PRUs less than 1 MMCF AOF per day with an exceptional location penalty shall be as follows:

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- A) PRUs at a legal location and in a standard 640 acre unit:

$$\text{Allowable} = \text{AOF} \times 0.75$$

- B) PRUs at a legal location and not in a standard 640 acre unit:

$$\text{Allowable} = \text{AOF} \times 0.75 \times \text{unit acreage}/640(\text{standard unit acreage})$$

- C) PRUs that are assigned an exceptional location penalty and in a standard 640 acre unit:

$$\text{Allowable} = \text{AOF} \times 0.75 \times \text{penalty factor (encroachment footage/legal footage)}$$

- D) PRUs that are assigned an exceptional location penalty and not in a standard 640 acre unit:

$$\text{Allowable} = \text{AOF} \times 0.75 \times \text{penalty factor (encroachment footage/legal footage)} \times \text{unit acreage}/640(\text{standard unit acreage})$$

- (3) PRUs with an AOF of less than 1 MMCF per day, and do not have an exceptional location penalty, may produce at AOF.
- (4) PRUs that have an AOF of less than 75 MCF, and are assigned an exceptional location penalty, may produce at AOF.
- (5) All PRUs with an AOF of less than 75 MCFD may produce at AOF and are exempt from the testing requirements specified in subparagraph (d) above. AOF of less than 75 MCFD shall be demonstrated by either:
- A) Conducting a test utilizing the methodology specified in subparagraph (c) above;  
or
- B) Utilizing the most recent six month average daily rate of production for the PRU under actual operating conditions calculated by dividing the total gas reported by the number of days produced during the applicable six month period.

(Source: 1991 rule book; amended (Order No. 74-94) October 25, 1994; amended October 1, 2000; amended January 14, 2008; amended February 19, 2009; amended August 21, 2009)

### **RULE D-17 - GENERAL RULE FOR THE REGULATION OF NATURAL GAS PIPELINES**

- a) Definitions

- 1) Jurisdictional Pipeline means any onshore pipeline regulated under Federal Regulation 49 CFR Part 192, which transports natural gas from the well to the custodial transfer meter.

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- 2) Non-Jurisdictional Pipeline means any onshore pipeline, including but not limited to flowlines, production lines, or gathering lines, not under jurisdiction of Federal Regulation 49 CFR Part 192 which transports natural gas from the well to the custodial transfer meter.
- 3) Perennial Stream means: a stream that has flowing water year-round during a typical year, the water table is located above the stream bed for most of the year, groundwater is the primary source of water for stream flow, and runoff from rainfall is a supplemental source of water for stream flow.
- 4) Pipeline Operator means any person who owns or operates and is responsible for the construction, operation and maintenance of a pipeline which transports natural gas from the well to the custodial transfer meter.

b) Applicability

Every Pipeline Operator transporting natural gas by pipeline from the well to the custodial transfer meter is subject to the applicable provisions of this rule. Natural gas pipelines from the well, to a custodial transfer meter located on the well pad, are exempt from the provisions of this rule.

c) General Requirements for all Jurisdictional and Non-Jurisdictional Pipelines:

- 1) Each pipeline operator shall apply, on a form prescribed by the Director, for an initial statewide permit to construct and operate a natural gas pipeline system. The initial permit application shall contain at a minimum the following:
  - A) Name, address and contact information for the gas pipeline operator;
  - B) Map, or other media acceptable to the Director, showing the location of all natural gas pipelines from the producing wells through any production or processing equipment or treating facility, and to the custodial transfer meter, including all public road, railroads and perennial stream crossings;
  - C) A determination as to what pipelines are jurisdictional;
  - D) Submission of the applicable permit fee as follows:
    - (i) no permit fee is required for 1 mile or less, provided the pipeline does not cross a public road, railroad or perennial stream.
    - (ii) less than 50 miles of pipeline, including pipelines in (c)(1)(D)(i) above which cross public roads, railroads or perennial streams - \$500.00
    - (iii) 50 miles to less than 100 miles of pipeline - \$1,500.00
    - (iv) 100 miles to less than 250 miles of pipeline - \$2,500.00
    - (v) greater than 250 miles of pipelines - \$5,000.00
- 2) Each pipeline operator shall be required to submit an annual permit renewal by January 31 of each year.

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- 3) The renewal permit shall include a revised pipeline map showing any new pipeline additions constructed during the previous year, an annual report on a form prescribed by the Director, along with a permit renewal fee in accordance with paragraph (c)(1)(D) above. The renewal permit shall also contain the operator's determination as to which pipelines are jurisdictional.
- d) Requirements for all Non-Jurisdictional Pipelines
- 1) Each pipeline operator shall submit a Notice of Construction or Repair, on a form prescribed by the Director, prior to commencing construction or within 48 hours after completing repair, for each segment or project length of pipeline constructed during the year. The Notice shall indicate the location and extent of the pipelines to be constructed or repaired.
  - 2) Each pipeline operator shall submit a Notice of Incident, on a form prescribed by the Director for each incident of release due to pipeline failure which results in a total cost of repair, including the value of natural gas lost, of fifty thousand dollars (\$50,000) or more.
  - 3) All pipelines crossing any stream or stream bed shall comply with applicable state and federal rules and regulations. Additionally, any stream crossing of perennial streams, constructed on or after December 16, 2007, shall maintain a minimum of fifty (50) feet of undisturbed stream bank for the protection of the stream.
  - 4) Each pipeline operator shall place and maintain appropriate signage at all pipeline crossings of public roads and railroads. The marker should include the words "Warning", "Caution" or "Danger" followed by the words "Gas Pipeline" along with the operators name and telephone number where the operator can be reached at all times.
  - 5) Each pipeline operator which operates pipelines within the limits of any incorporated or unincorporated city, town or village, shall be a member of a qualified one-call program.
  - 6) All pipelines, constructed after the effective date of this rule, shall be buried at least twenty-four (24) inches below ground surface, or in accordance with other applicable state or federal laws.
- e) Requirements for Jurisdictional Pipelines
- 1) All jurisdictional pipelines shall be in compliance with construction, operation and maintenance requirements contained in Federal Regulations 49 CFR Part 192 Subpart A thru Subpart O which are herein incorporated by reference.
  - 2) All jurisdictional pipelines shall be subject to the applicable enforcement provisions of Federal Regulation 49 CFR Part 190 which are herein incorporated by reference.
  - 3) All jurisdictional pipelines shall be subject to the applicable incident and other reporting requirements contained in Federal Regulation 49 CFR Part 191 which are herein incorporated by reference.
  - 4) All pipeline operators of jurisdictional pipelines shall be subject to the applicable drug and alcohol testing requirements contained in Federal Regulation 49 CFR Part 199 which are herein incorporated by reference.

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- 5) All jurisdictional lines which contain over 100 PPM hydrogen sulfide shall also be subject to the provisions of subparagraph (f) below, unless the provisions of subparagraph (f) are less stringent than any applicable requirement of this subparagraph (e).
- f) Additional Requirements for All Pipelines Containing 100 PPM or Greater Hydrogen Sulfide.
  - 1) Construction Requirements:
    - A) All pipeline materials must be chemically compatible with any natural gas transported by the pipeline and such pipeline shall maintain structural integrity under the anticipated temperatures and environmental conditions for which the pipeline may be exposed, and
    - B) All piping must be of sufficient thickness or must be installed with adequate protection to withstand anticipated external pressures and loads that will be imposed on the pipe after installation, and
    - C) No pipeline may be operated after new construction, repair or relocation until it has been successfully tested for at least one hour with a minimum pressure of 1.25 times the maximum operating pressure to substantiate the maximum operating pressure with all leaks located and eliminated, and
    - D) All metallic pipelines must be adequately protected from both external and internal corrosion and the operator is required to submit an annual report, by March 31<sup>st</sup> of every year for the preceding calendar year, of the effectiveness of the company's corrosion program, with such protection efforts performed by an independent contractor specializing in the control of corrosion.
  - 2) Each operator shall prepare, maintain and follow for each pipeline, a manual of written procedures for conducting operations, maintenance activities and emergency response. This plan must be reviewed and updated as often as necessary. A review must be conducted annually but not to exceed 15 months between reviews.
  - 3) Each operator shall have a procedure for continuing surveillance of its facilities and take appropriate action regarding, failures, corrosion and operating conditions.
  - 4) Each operator must develop and carry out a damage prevention program to prevent damage to its pipelines from excavation activities. Each operator shall be a member of the state wide "one-call" system. The plan must have a method of communicating to excavators in the area where the pipeline is located of the existence of the pipeline, provide a means of receiving and recording notification of planned excavation activities, provide for temporary marking of the pipeline and inspection of the pipeline when the operator has reason to believe it could be damaged by excavation activities.
  - 5) Each operator shall establish written procedures to minimize the hazards resulting from a gas pipeline emergency event. Each plan must include at a minimum:
    - A) Methods of receiving and identifying an event which requires immediate response; and
    - B) Methods for establishing and maintaining adequate communication with appropriate emergency response and public officials; and

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- C) Methods for determining safe areas related to evacuation and security during an event; and
  - D) Methods for training employees of their duties and responsibilities during an event.
- 6) Each operator shall develop and implement a written continuing public awareness plan which includes provisions for educating the public, appropriate governmental organizations and persons engaged in excavation activities. Use of a one-call notification prior to conducting excavation, possible hazards associated with unintended releases from the pipeline, physical indications that such a release may have occurred, steps that should be taken for the safety of the public, procedures for reporting such an event. The program must include activities to advise affected municipalities, schools, businesses and residents along the pipeline right of way. The program and media used must be as comprehensive as necessary to reach all areas in which the operator shall transport gas.
  - 7) Each operator shall establish procedures for analyzing accidents and failures for the purpose of determining the cause of the failure and minimizing the possibility of subsequent reoccurrence.
  - 8) Each operator shall not operate any pipeline at a pressure that exceeds the documented pressure at which the pipeline may be safely operated.
  - 9) Each operator shall have a patrol program to observe surface conditions on and adjacent to its pipeline right-of-way for indications of leaks, construction activity, erosion, condition of signage, conditions at public road and railroad crossings and other factors affecting safety and operation of the pipeline. Patrols shall be conducted and documented at least twice each calendar year, not to exceed 7 ½ months between patrols.
  - 10) Each operator shall maintain appropriate pipeline markers at all public road and railroad crossings and along the pipeline at intervals necessary to identify the location of the buried pipeline. The marker should include the words “Warning”, “Caution” or “Danger” followed by the words “Gas Pipeline” along with the operators name and telephone number where the operator can be reached at all times.
  - 11) Each pressure relieving device in a compressor station, pressure limiting station or regulator station must be inspected, tested and operated at the pipelines maximum operating pressure, once each calendar year and not to exceed 15 months to determine proper operation.
  - 12) Each remote controlled shutdown device must be inspected and tested once each calendar year and not to exceed 15 months to determine proper operation.
  - 13) Each line valve that serves to block a segment of pipeline and or might be used in an emergency, must be inspected and partially operated once each calendar year and not to exceed 15 months.
  - 14) Each operator shall maintain records associated with operation and maintenance of the pipeline required in this section.
  - 15) Each pipeline abandoned in place must be disconnected from all sources of gas, purged of gas, filled with freshwater or inert material and sealed at both ends. When a pipeline is

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being purged all efforts must be taken to (i) prevent the formation of a hazardous mixture of gas and air, (ii) ensure that all safety equipment necessary is present, (iii) remove all non-essential persons from the area and (iv) ensure the public is adequately protected.

(Source: (Order No. 90-97) October 28, 1997; amended December 16, 2007; amended September 14, 2008)

### **RULE D-18 - AUTHORITY TO COMMINGLE**

- a) This rule authorizes the Director of Production and Conservation, or his designee, to approve certain commingle requests as detailed in this rule. This rule is applicable for administrative approval of commingling of multiple common sources of supply on an individual well basis only, and includes previously completed and/or uncompleted sources of supply in a well, with no restriction on rate of production. The rule is not applicable on a field-wide basis.
- b) All common sources of supply classified by the Commission as uncontrolled, are exempt from the provisions of this rule and are permitted to be commingled without application, only when commingled with other uncontrolled sources of supply. Upon completion of the commingling activities, reporting in accordance with Rule B-5 is required.
- c) All common sources of supply previously approved and commingled in wells before the effective date of this rule are allowed to continue in effect for the life of the well.
- d) Commingling is permitted without application for the Middle Atoka, as defined by General Rule B-44 (a) (4). Upon completion of commingling activities, reporting in accordance with Rule B-5 is required.
- e) Requests for the commingle of common sources of supply with a well, or at the surface of a well in the following well categories, are not subject to the administrative approval process set forth in this rule, and must be brought before the Commission for approval following proper notice and hearing:
  - 1) A wildcat well; or
  - 2) A well located within an exploratory unit established by Commission Order; or
  - 3) A well in which the commingling of multiple common sources of supply will result in an unapproved additional completion within the drilling unit; or
  - 4) A well in which the primary reservoir drive mechanism for a requested zone to be commingled is a water drive; or
  - 5) A well in which the ownership between the commingled zones is not common, unless all owners, as defined in Ark. Code. Ann. (1987) § 15-72-102(9), in the well agree in writing; or
  - 6) A well in which spacing requirements are different between commingled zones.
- f) Application to commingle common sources of supply in accordance with this rule shall be submitted on a form prescribed by the Director of Production and Conservation and shall include, at a minimum:
  - 1) The operator's contact information;

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- 2) The name and location of the well;
  - 3) The perforated intervals to be commingled;
  - 4) A plat showing well locations in the unit indicating all common sources of supply to be commingled;
  - 5) A statement as to whether the primary reservoir drive mechanism for the requested commingled zone is a water drive;
  - 6) A statement as to whether all zones to be commingled have common spacing requirements;
  - 7) A statement as to whether any of the requested zones to be commingled are subject to a location exception order, the penalty for which will be applied to the commingled production;
  - 8) Proof of notice sent to all offset operators, of the right to drill and produce in all adjacent units, of the intent to commingle.
- g) Upon review and approval of the application and if no objections are received by the Director of Production and Conservation within 15 days of the date of the notice sent to each adjacent offset operator or if the application is accompanied by written acceptance by the offset operators of the commingle request, the application for commingling shall be approved. Approved applications are only valid for one year from date of issuance, unless commingling activities have been commenced prior to that time.
- h) Following approval of the commingle application, the applicant shall submit to the Director of Production and Conservation, the following:
1. Completed Well Completion and Recompletion Report, and
  2. Rates and pressures for each commingled zone, unless a staged frac completion technique has been used in the well.
- i) If the Director of Production and Conservation receives an objection to a commingle application during the notice period specified in (f) above, or if the application does not satisfy the requirements of this Rule and is denied by the Director, the applicant may request to have the matter placed, in accordance with General Rules A-2, A-3, and other established procedures, on the docket of a regularly scheduled Commission hearing.

(Source: new rule February 2, 2006; amended January 22, 2009; amended June 5, 2009)

### **D-19 ADDITIONAL COMPLETIONS WITHIN COMMON SOURCES OF SUPPLY WITHIN A DRILLING UNIT**

- a) This rule is applicable for administrative approval, by the Director of Production and Conservation, of additional completions, within common sources of supply, within established drilling units located in fields covered by field rules.
- b) This rule is not applicable on a field-wide basis, or within Exploratory Units.

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- c) Application for additional completions shall be submitted to the Director of Production and Conservation on a form prescribed by the Director, and contain the following information:
- 1) The location of the unit;
  - 2) The location of all well(s) showing the productive zones in each well within the unit for which the additional completions are requested;
  - 3) Initial and current pressure(s) and current rates and, cumulative production for each completion within a common source of supply;
  - 4) A structure and isopach map of the common source of supply;
  - 5) A unit cross-section, including the wells for which the additional completion is requested;
  - 6) A statement as to whether there is common ownership within the wells producing from the common source of supply within the unit; and
  - 7) If applicable, the drainage characteristics for each well within the common source of supply;
- d) In addition, each application shall provide proof of written notice to all owners, as defined in Ark. Code Ann. § 15-72-102(9), in the subject unit and all offset operators in all adjacent established units including all owners, as defined by Ark. Code Ann. § 15-72-102(9) in any offset unit where the operator is the same as the applicant.
- e) The notice shall contain at a minimum, the name of the applicant, the name and location of the well, the zone subject to the additional completion request, and instructions as to the filing with the Director of Production and Conservation written objections within fifteen (15) days after receipt of the application by the Director of Production and Conservation
- f) Any offset operator or owner noticed in accordance with paragraph e) above shall have the right to object to the granting of such application within fifteen (15) days after receipt of the application by the Director of Production and Conservation.
- g) Upon review of the application and if the submitted evidence or requested additional evidence indicates that:
- 1) Stratigraphic or structural separation of the common source of supply can reasonably be demonstrated; or
  - 2) The irregular shape and/or size of the drilling unit relative to the drainage characteristic of the well within the common source of supply necessitate an additional completion; or
  - 3) The drainage characteristics of the well within the common source of supply in a regular shape and size drilling unit demonstrate an additional completion is necessary to effectively drain the unit; or
  - 4) The pressure data from the common source of supply indicates less than a 20% reduction in the original pressure 5 years after the first completion in that same source of supply; or
  - 5) The other unit completion(s) in the common source of supply have each produced less than 75 MCF per day over the twelve month period prior to the additional completion

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application or a newly drilled well, which is the subject of the additional completion request, and which is only able to produce less than 75 MCF per day absolute open flow; and

- 6) If ownership within the wells in the common source of supply within the unit is not common, but evidence of agreement between the owners is provided with the additional completion application; and
  - 7) If an objection is not received within 15 days after the receipt of the application, the Director of Production and Conservation shall approve the application.
- h) If an objection is received or if the application does not satisfy the requirements of this Rule, the application shall be denied. If an application is denied, or if the reason for an additional completion request is not addressed by this rule, the Applicant may request to have the matter placed, in accordance with established procedures, on the docket of a regularly scheduled Commission hearing.

(Source: new rule February 2, 2006; amended April 13, 2008)

## **GENERAL RULE E - TRANSPORTATION**

### **RULE E-1 - PIPE LINES, PURCHASERS AND TRANSPORTERS**

- (A) No carrier by pipe line and no gathering system shall transport oil from any lease or wells if the said pipe line or gathering system has reason to believe the owner or operator of said lease or wells to which it is connected has violated any rule, regulation or order of the Commission or any conservation laws of the State with reference to oil and gas.
- (B) No pipe line company shall transport oil from any gathering system which the said pipe line company has reason to believe has violated any rule, regulation or order of the Commission or any conservation law of this state with reference to oil and gas.

It shall be the duty of the pipe line company to suspend transportation of any oil from said gathering system until such time as such pipe line company is notified in writing by the agent of the Commission that the violation on the part of the gathering system has been discontinued and that the gathering system is complying with the rules, regulations and orders of the Commission and the conservation laws of the State of Arkansas.

- (C) In order to carry out the spirit and purposes of this and other regulations tending to provide orderly production of crude oil without waste and to give equal opportunity for marketing oil to all operators bringing wells into production in said field, all pipe line companies are hereby directed to make connection of their lines to the lease tanks on properties or leases in rotation as wells are completed, regardless of ownership. Connections shall be accepted and taken by the pipe line which by geographical location and least expense is the logical connection unless some other line is willing to accept the same. All wells which are at the present time unconnected shall be given connection by the pipeline to which the same are or may be allocated before the owners of such pipe lines make connections to their own wells or wells of affiliated companies.

(Source: 1991 rule book)

### **RULE E-2 - REPORTS FROM OIL PIPE LINES, TRANSPORTERS AND STORERS**

Each transporter of oil within the State of Arkansas shall furnish for each calendar month a "Transporter's and Storer's Monthly Report", containing complete information and data indicated by such form respecting stocks of oil on hand and all movements of oil by pipe line within the State of Arkansas and all movements of oil by watercraft, or by trucks or other conveyances except railroads, from leases to storers or refiners; between transporters within the State; between storers within the State; between refiners within the State; and between storers and refiners within the State.

Each storer of oil within the State of Arkansas shall furnish for each calendar month a "Transporter's and Storer's Monthly Report", containing complete information and data indicated by such form respecting the storage of oil within the State of Arkansas.

The transporters and storers reports for each month shall be prepared and filed according to instructions on the form, on or before the 15<sup>th</sup> day of the next succeeding month.

(Source: 1991 rule book)

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### **RULE E-3 - EXPLORATION AND PRODUCTION FLUID GATHERING, HANDLING AND TRANSPORTATION**

- a) Definitions
- 1) "Class II Fluids" means:
    - A) Produced water and/or other fluids brought to the surface in connection with drilling, completion or fracture treatments, workover or recompletion and plugging of oil, natural gas, Class II or wells that are required to be permitted as water supply wells by the Commission; enhanced recovery operations; or natural gas storage operations, or
    - B) Produced water and/or other fluids from A) above, which prior to re-injection have been used on site for purposes integrally associated with well drilling, completion or fracture treatments, workover or recompletions or plugging oil, natural gas, Class II or wells that are required to be permitted as water supply wells by the Commission; enhanced recovery operations; natural gas storage operations; or chemically treated or altered to the extent necessary to make them usable for purposes integrally related to well drilling, completion, workover or recompletions or plugging oil, natural gas, Class II or wells that are required to be permitted as water supply wells by the Commission; enhanced recovery operations; natural gas storage operations, or commingled with fluid wastes resulting from fluid treatments outlined above, provided the commingled fluid wastes do not constitute a hazardous waste under the Resource Conservation and Recovery Act.
  - 2) "Exploration and Production Fluid" means crude oil bottom sediments and all Class II fluids, to the extent those fluids are now or hereafter exempt from the provisions of Subtitle C of the Federal Resource Conservation Recovery Act of 1976.
  - 3) "Exploration and Production Fluid Transportation System" means any motor vehicle licensed for highway use on a public highway or used on a public highway, that is equipped for either carrying or pulling a Transportation Tank containing Exploration and Production Fluids, from the point of any fluid generation or collection site to any subsequent off-site storage facility, surface disposal facility or an injection well disposal facility.
  - 4) "Exploration and Production Fluid Transporter" means an operator of an Exploration and Production Fluid Transportation System.
  - 5) "Transportation Tank" means an assembly, compartment, tank or other container that is used for transporting or delivering Exploration and Production Fluid.
- b) No person shall operate an Exploration and Production Fluid Transportation System without an Exploration and Production Fluid Transportation System permit. Application for which shall be made on forms prescribed by the Director. The application shall be executed under penalties of perjury, and accompanied by an Exploration and Production Fluid Transportation System permit fee in the amount specified below.
- c) If the application does not contain all of the required information or documents, the Director or his or her designee shall notify the applicant in writing. The notification shall specify the additional information or documents necessary to process the application, and shall advise the

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applicant that the application will be deemed denied unless the additional information or documents are submitted within 30 days following the date of notification.

- d) The application shall, at a minimum, include:
  - 1) A permit fee of \$100.00 per Transportation Tank.
  - 2) The name, address, and business and emergency telephone numbers of the proposed Exploration and Production Fluid Transporter, including Arkansas contact information if the transporter is located outside of the state of Arkansas.
  - 3) A brief description of the number and type of Transportation Tanks to be used in the system; specifying whether Transportation Tanks will be owned, leased or otherwise arranged for and including tank capacity and a manufacturers serial number or other identifying number for Transportation Tank.
  - 4) An Entity Organizational Report on a form prescribed by the Director.
- e) If the applicant satisfies all requirements of this rule, the Director shall issue an Exploration and Production Fluid Transportation System permit and permit sticker for each Transportation Tank. The Exploration and Production Fluid Transportation System permit shall be kept in the Arkansas office of the Exploration and Production Fluid Transportation System permit holder. The permit sticker shall be affixed to the back of the Transportation Tank and shall be kept visible and readable at all times.
- f) Exploration and Production Fluid Transportation System permits are not transferable.
- g) Exploration and Production Fluid Transportation System permits shall be renewed annually on July 1 of each year, commencing on July 1, 2010; and Amended applications, including any additional permit fees, are required to be submitted within thirty (30) days of the addition of any Transportation Tanks to the Exploration and Production Fluid Transportation System.
- h) Exploration and Production Fluid Transportation System recordkeeping requirements:
  - 1) Each Exploration and Production Fluid Transportation System permit holder shall maintain a record of all Exploration and Production Fluids received, transported, delivered or disposed of, which shall include the well lease or unit name, well or facility operator (fluid generator), the date received, the amount per pick up, type of fluid, and the name and location of the permitted off-site temporary storage facility, permitted surface disposal facility or permitted injection well disposal facility.
  - 2) Records shall be maintained a minimum of three (3) years at the Arkansas office of the Exploration and Production Fluid Transportation System permit holder, and shall be made available to commission staff for inspection during normal business hours.
- i) Exploration and Production Fluid Transportation System operating requirements:
  - 1) All Transportation Tanks and associated piping and valves must be kept in leak free condition.
  - 2) Exploration and Production Fluid Transporters shall only transport Exploration and Production Fluid to a permitted off-site temporary storage facility, a permitted surface disposal facility or a permitted injection well disposal facility. Exploration and

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Production Fluid shall not be released or discharged onto the ground surface or into waters of the state, unless otherwise authorized by the Arkansas Department of Environmental Quality.

- 3) All Exploration and Production Fluids stored at a permitted temporary storage facility shall be contained in tanks or permitted temporary storage pits.
  - 4) Exploration and Production Fluid shall not be commingled or blended with non-exempt waste (such as used motor or compressor oil) under Subtitle C of the Federal Resource Conservation and Recovery Act of 1976.
  - 5) All Transportation Tanks shall contain the name and phone number of the Exploration and Production Fluid Transporter in a legible manner.
- j) No person shall engage, employ or contract with any other person except a permitted Exploration and Production Fluid Transporter to transport Exploration and Production Fluids.
- k) Failure to comply with provisions of this rule may result in revocation of the Exploration and Production Fluid Transportation System permit, and/or the assessment of civil penalties in accordance with General Rule A-5.

(Source: new rule January 22, 2009)

## **GENERAL RULE F - PROCESSING**

### **RULE F-1 - GENERAL ORDER**

The Commission will, if deemed necessary, issue special rules, regulations and orders relating to the erection and operation of any plant or factory separating products from oil or gas or both.

(Source: 1991 rule book)

### **RULE F-2 - REFINERY REPORTS**

Each refiner of oil within the State of Arkansas shall furnish for each calendar month a “Refiner’s Monthly Report”, containing the information and data indicated by such form, respecting oil and products involved in such refiner’s operations during each month. Such report for each month shall be prepared and filed according to instructions on the form, on or before the 15<sup>th</sup> day of the next succeeding month.

(Source: 1991 rule book)

### **RULE F-3 - GASOLINE PLANT REPORTS**

Each operator of a gasoline plant, cycling plant or any other plant at which gasoline, butane, propane condensate, kerosene, oil, or other liquid products are extracted from natural gas within the State of Arkansas, shall furnish for each calendar month a “Monthly Gasoline or Other Extraction Plant Monthly Report”, containing the information indicated by such form respecting natural gas and products involved in the operation of each plant during each month.

Such reports for each month shall be prepared and filed according to instructions on the form on or before the 15<sup>th</sup> day of the next succeeding month.

(Source: 1991 rule book)

**GENERAL RULE G - ABANDONED AND ORPHAN WELL  
PLUGGING PROGRAM**

**RULE G-1 - ABANDONED OR LEAKING WELL AND WELL SITE REMEDIATION**

- a) This rule is applicable for the following types of wells:
- 1) oil and gas production wells,
  - 2) water supply wells used in enhanced oil and gas recovery projects,
  - 3) UIC Class II saltwater disposal wells, and
  - 4) UIC Class II water injection wells used in enhanced oil and gas recovery projects.
- b) Definitions
- 1) “Abandoned Well” means:
    - A) an oil and gas production well owned or operated by a Permit Holder which has not produced for over 2 years; or
    - B) a UIC Class II saltwater disposal or UIC Class II water injection well which is no longer used due to the plugging of all the wells on the lease or unit or for which an agreement to continue use of the well has not been granted by the lease holder, or
    - C) a well for which the underlying lease has been released in writing by the lessee or has been declared forfeited or invalid by a court order, and such order is final and the appeal period has lapsed; and the lessor states in writing that the lessor has not leased out the oil and gas working interest to any other person and does not intend to so lease, and that the lessor does not intend to operate the well, and that the lessor desires that the well be plugged; or
    - D) a well owned or operated by a Permit Holder who has made no payment by March 1 of a current annual well fee assessment in accordance with Ark Code Ann. §15-71-116; or
    - E) a well that has been ordered to be plugged by the Commission and the Permit Holder has failed to do so within the time frame specified in the Commission Order; or
    - F) a well site which has not been properly restored following the completion of well plugging activities.
  - 2) “Well Site Equipment” means the equipment, including but not limited to an associated tank battery, production and injection facility equipment, hydrocarbons from the well that are stored in tanks located on the lease, and hydrocarbons recovered during the plugging operation.

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- 3) “Well Site” means the area around and near the well, including any associated pits, crude oil or produced water storage tanks or other related production facility equipment, such as injection pumps, compressors or gas processing equipment.
  - 4) “Director” means the Oil and Gas Commission Director of Production and Conservation.
  - 5) “Leaking Well” means a well drilled for the exploration, development, storage or production of oil or gas, or for injection, saltwater disposal, saltwater source, observation, and geological or structure test which is leaking salt water, oil, gas, or other deleterious substance into any fresh water formation or onto the surface of the land in the vicinity of the well.
  - 6) “Well Site Restoration” means remediation of a well site, including but not limited to the following activities: an emergency clean-up of spilled crude oil or saltwater; remediation of conditions endangering the public health or safety, or contaminating or potentially contaminating surface waters, groundwater, or the surface of the land; work to repair or contain leaks of produced fluids from wells, production or injection equipment, pits or other containment structures, which are contaminating or potentially contaminating surface waters, groundwaters or the surface of the land; or a repairing a well leaking natural gas or hydrogen sulfide gas endangering or potentially endangering public safety or creating a potential a fire hazard.
- c) If the Director finds, upon inspection and/or review of Commission records, that a well drilled for the exploration, development, storage or production of oil or gas, or for injection, saltwater disposal, saltwater source, observation, and geological or structure test, may be abandoned; well site restoration has not been completed; is a leaking well; or the well or well site creates an imminent danger to the health or safety of the public, the Director may schedule a hearing, in accordance with established procedures.
  - d) If after notice and a hearing, the Commission finds that a well drilled for the exploration, development, storage or production of oil or gas, or for injection, saltwater disposal, saltwater source, observation, a geological or structure test, may be abandoned; well site restoration has not completed; is a leaking well; or the well or well site creates an imminent danger to the health or safety of the public; the Commission shall issue an order requiring the Permit Holder to properly plug, re-plug, repair, or restore so as to remedy the situation.
  - e) If the Permit Holder fails to properly plug, re-plug, repair, or restore so as to remedy the situation within 30 days from the time frame prescribed by the Commission order, the abandoned well or well site; leaking well; a well or well site that creates an imminent danger to the health or safety of the public; or a well site restoration has not been completed, the well or well site shall be subject to the provisions of this Rule.
  - f) The Director may then authorize any person to enter upon the land and properly plug, re-plug, repair, or restore so as to remedy the situation. The Director may dispose of all well site equipment and hydrocarbons, to offset the costs of properly plugging, re-plugging, repairing, or restoring so as to remedy the situation. Proceeds from any public sale, auction or private sale of all well site equipment or hydrocarbons shall be deposited into the Plugging Fund or used to offset plugging costs. All work completed under this rule shall be paid with funds from the Abandoned and Orphan Well Plugging Fund.
  - g) The Permit Holder shall reimburse the Commission for all costs expended to remedy the situation. All payments shall be by cashier’s checks or money order, and shall be deposited in the Abandoned and Orphaned Well Plugging Fund. Failure to reimburse the Commission will result

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in the initiation of Commission enforcement action to recover the expended funds. Prior to repayment of all expended funds, the Permit Holder shall not be permitted to operate any other existing wells in the Permit Holder's name. Upon repayment and prior to being permitted to operate any wells, the Permit Holder may be required to post additional bond, as determined by the Director in accordance with General Rule B-2, to insure against the plugging of future abandoned wells not plugged by the Permit Holder.

(Source: new rule April 13, 2008)

### **RULE G-2 - PLUGGING OF ORPHAN WELLS**

a) Definitions:

- 1) "Orphan Well" means a well for which a Permit Holder can not be located, there is no record the well is covered by a Commission required bond by the last known permit holder of record, and no fees have ever been paid on the well in accordance with Ark. Code Ann. § 15-71-110.
- 2) "Well Site Equipment" means the equipment, including but not limited to an associated tank battery, production and injection facility equipment, hydrocarbons from the well that are stored in tanks located on the lease, and hydrocarbons recovered during the plugging operation
- 3) "Well Site" means the area around and near the well, including any associated pits, crude oil or produced water storage tanks or other related production facility equipment, such as injection pumps, compressors or gas processing equipment.
- 4) "Director" means the Oil and Gas Commission Director of Production and Conservation.

b) If after review of the Commission records, the Director determines a well or well site to be orphaned, that well or well site may be administratively determined to be eligible for plugging, without the need for a hearing. Following designation as an orphaned well or well site, the Director may elect to properly plug, re-plug, or restore so as to remedy the situation, and authorize any person to enter upon the land properly plug, re-plug, or restore so as to remedy the situation.

c) All work completed under this rule shall be paid with funds from the Abandoned and Orphan Well Plugging Fund. Additionally, the Director may dispose of all well site equipment and hydrocarbons, to offset the cost of the well plugging and well site restoration operations. Proceeds from any public sale, auction or private sale of all well site equipment or hydrocarbons shall be deposited into the Plugging Fund or used to offset plugging costs.

(Source: new rule April 13, 2008)

### **RULE G-3 - TRANSFER OF WELLS IN THE ABANDONED AND ORPHANED WELL PLUGGING PROGRAM**

a) Definitions

- 1) "Well" as used in this Rule (G-3) shall only mean wells that are abandoned as defined in General Rule G-1 (a) (1), or orphaned as defined in General Rule G-2 (a) (1).
- 2) "Commission" means the Arkansas Oil and Gas Commission.

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- 3) “Director” means the Director of Production and Conservation.
- b) When a transfer request is received, on a form prescribed by the Director, for a well, the following documentation must be submitted by the proposed new Permit Holder:
  - 1) a signed new base lease properly recorded in the county where the well is located; or
  - 2) an affidavit stating a new base lease has been obtained and properly recorded in the county where the well is located;
- c) Upon review and acceptance of the transfer request, and prior to approval of the transfer request, the proposed new Permit Holder shall:
  - 1) pay a salvage value for the downhole well equipment as follows:
    - A) \$500 per well for wells less than 3000 feet in depth; and
    - B) \$1000 per well for wells equal to or greater than 3000 feet in depth; and
  - 2) pay a salvage value for the tanks, pumping units, and other related equipment, as determined by submission of 2 independent salvage value estimates from commercial salvage oil and gas production equipment dealers and approved by the Director or his or her designee;
  - 3) pay the fair market value per barrel, to be determined at the time of the transfer approval, for all oil fluids (hydrocarbons) stored on the lease or unit: and
  - 4) if applicable, provide financial assurance in accordance with General Rule B-2 and file all other required organizational and registration forms.
- d) All payments shall be by cashier’s checks or money order, payable to the Commission, and shall be deposited in the Abandoned and Orphaned Well Plugging Fund.
- e) The Director has sole discretion to approve or deny requests for transfer of the well. If, upon review of a transfer request for the well, the Director determines that property rights, environmental or public safety and welfare concerns will be advanced through plugging the well, the transfer request may be denied.

(Source: new rule April 13, 2008)

## GENERAL RULE H - CLASS II UIC WELLS

### RULE H-1 - CLASS II DISPOSAL AND CLASS II COMMERCIAL DISPOSAL WELL PERMIT APPLICATION PROCEDURES

a) Definitions:

- 1) "Class II Disposal Well"--means a permitted Class II well in which Class II Fluids are injected into zones non-productive of oil and gas, within the field boundary established by an order of the Commission, where the well is located, for the purpose of disposal of those fluids.
- 2) "Class II Commercial Disposal Well"--means a permitted Class II well in which Class II fluids are injected, for which the Permit Holder receives deliveries of Class II fluids by tank truck from multiple oil and gas well operators, and either charges a fee at the disposal well facility or purchases the Class II fluids at the source for subsequent transport to the disposal well facility for the specific purpose of disposal of the delivered Class II fluids.
- 3) "Class II Fluids" means:
  - A) Produced water and/or other fluids brought to the surface in connection with drilling, completion, or fracture treatments, workover or recompletion and plugging of oil and natural gas wells, Class II or wells that are required to be permitted as water supply wells by the Commission; enhanced recovery operations; or natural gas storage operations; or
  - B) Produced water and/or other fluids from (A) above, which prior to re-injection have been used on site for purposes integrally associated to oil and natural gas well drilling, completion, or fracture treatments, workover or recompletion and plugging of oil and natural gas wells, Class II or wells that are required to be permitted as water supply wells by the Commission; enhanced recovery operations; or natural gas storage operations, or chemically treated or altered to the extent necessary to make them usable for purposes integrally related to oil and natural gas well drilling, completion, workover and plugging, oil and gas production, enhanced recovery operations, or natural gas storage operations, or commingled with fluid wastes resulting from fluid treatments outlined above, and including any other exempted oil and gas related fluids under the Resource Conservation and Recovery Act, provided the commingled fluid wastes do not constitute a hazardous waste under the Resource Conservation and Recovery Act; or
  - C) Waste fluids from gas plants (including filter backwash, precipitated sludge, iron sponge, hydrogen sulfide and scrubber liquid) which are an integral part of oil and gas production operations; and waste fluids from gas dehydration plants (including glycol-based compounds and filter backwash), unless the gas plant or gas dehydration plant wastes are classified as hazardous under the federal Resource Conservation and Recovery Act.
- 4) "Confining layer" –means shales, anhydrites and other "impermeable" lithologies.
- 5) "USDW" means Underground Source of Drinking Water which is defined as an aquifer or its portion which:

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- B) Supplies any public water system; or
  - B) Contains a sufficient quantity of groundwater to supply a public water system and currently supplies drinking water for human consumption; or
  - C) Contains fewer than 10,000 mg/l total dissolved solids; and
  - D) Which is not an exempted aquifer (see 40 CFR)
- b) No person shall drill, recomplete or operate any well for use as a Class II Disposal or Class II Commercial Disposal Well without a permit from the Commission, application for which shall be made on forms prescribed by the Director. Permits shall remain valid only with ongoing compliance with established operating requirements specified in General Rule H-2. Failure to comply with the operating requirements in General Rule H-2 may result in revocation of the Class II Disposal Well or Class II Commercial Disposal Well permit.
- c) The application to drill, recompleted or operate a Class II Disposal or Class II Commercial Disposal Well shall include at a minimum:
- 1) The information required by subparagraph (h) below, for the existing or proposed well and any additional information deemed necessary by the Director for the protection of USDWs; and
  - 2) Accompanied by any applicable fee as described in General Rule B-1, and a non-refundable fee of \$100.00 for a Class II Disposal Well or \$500.00 for a Class II Commercial Disposal Well; and
  - 3) Accompanied by the required financial assurance in accordance with General Rule B-2; and
  - 4) Accompanied by a Form 1 Organizational Report in accordance with General Rule B-13; and
  - 5) Be executed under penalties of perjury
- d) No person shall inject into USDWs or be issued a permit to inject into USDWs unless an aquifer exemption has been granted in accordance with US Environmental Protection Agency procedures.
- e) Unless otherwise approved by the Commission, no person shall inject into a well which does not have at a minimum, five hundred (500) feet for a Class II Disposal Well or seven hundred- fifty feet (750) for a Class II Commercial Disposal Well, of confining layers between the base of the lowermost USDWs and the top of the injection interval.
- f) If the application does not contain all of the required information or documents, the Director shall notify the Applicant in writing. The notification shall specify the additional information or documents necessary for an evaluation of the application and shall advise the Applicant that the application will be deemed denied unless the information or documents are submitted within sixty (60) days following the date of notification.
- g) Applications for a Class II Disposal Well shall contain the names of all permit holders who are to utilize the proposed disposal well.

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### h) Contents of Application

- 1) A specification as to the type of Class II well being permitted as a Class II Disposal Well or a Class II Commercial Disposal Well.
- 2) The Applicant shall provide the name, address, phone, fax and e-mail (if available) of the local or on-site supervisory or field personnel responsible for the disposal well.
- 3) If the well is not located within the boundaries of an operating oil and gas leasehold or drilling unit, the Applicant shall provide documentation, in the form of a surface use agreement or an affidavit of a surface use agreement, indicating the Applicant's right to drill and to operate the proposed disposal well. If well is located within the boundaries of an operating oil and gas leasehold or drilling unit, or the Applicant is someone other than the operator of the leasehold or drilling unit, the Applicant shall provide documentation, in the form of a surface use agreement, or an affidavit of a surface use agreement, indicating the Applicant's right to drill and to operate the proposed disposal well.
- 4) A survey plat of the location and ground elevation of the proposed disposal well or if the application is for an existing well, the well name and permit number of the existing well. A new survey is not required for a well to be converted or deepened well or a plugged well to be re-entered, if the original well location was surveyed, a copy of which shall be submitted with the application.
- 5) The name, geologic description and top and bottom elevation, from sub-sea, of the formation (indicating the perforated or open hole interval) into which fluid will be injected and the geologic description and top and bottom elevation, from sub-sea, of the above confining layers, in the proposed or existing disposal well. If an existing well is to be converted, a geophysical log of the well shall be submitted showing the above information. If for a proposed well, an induction log from a well in the immediate vicinity of the proposed disposal well shall be submitted. If the geologic name of the interval is unclear include any additional geological evidence such as a cross section, structure or isopach map that may be necessary to adequately define the proposed injection interval.
- 6) A well bore diagram of the proposed or existing well showing casing for the injection well, indicating from the well head to total depth of the well, all casings and cementing of casings, any obstructions within well, all plugs set, tubing and packer setting depth, and all perforations and or open hole intervals. If application is for an existing well, a cement bond log (CBL) shall be submitted with the application, or if submitted after the application is filed, the CBL shall be submitted prior to commencement of operations as a condition of the permit.
- 7) The proposed daily amounts to be injected, the source and the type of fluid to be injected, including a standard laboratory analysis representative of the various types of proposed disposal fluids, indicating chloride, pH, specific gravity, total dissolved solids (TDS) and total percent hydrocarbon (TPH). The sample shall be obtained and analyzed no earlier than one (180) days prior to the date of filing of the application.
- 8) The maximum injection pressure.

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- A) The maximum injection pressure at the wellhead shall be not more than 90% of that pressure, measured at the surface, required to fracture the injection formation or be no greater than 0.5 psig for each foot of subsurface depth to the injection zone, whichever is less.
  - B) An exception for this maximum injection pressure may be granted if the Applicant presents sufficient evidence to justify the requested increased injection pressure will not initiate or propagate fractures in the injection interval or overlying confining strata that could enable the injection fluid or the fluid in the injection interval to leave the permitted injection intervals or cause movement of the injection fluid or formation fluids into USDWs.
- 9) A map showing:
- A) The surveyed location of the well proposed to be drilled, deepened or converted, showing distances to the nearest property or lease lines; and
  - B) The location of all municipal water supply wells and the approximate location of private water wells of public record, within the 1/2 mile radius from the proposed disposal well; and
  - C) The location of all plugged and unplugged wells, which penetrate the proposed injection interval, within the 1/2 mile radius from the proposed disposal well, and showing the status of each well as producing, shut-in, disposal, enhanced recovery, plugged and abandoned, or other status.
- 10) The Applicant shall submit evidence that all plugged and unplugged wells which penetrate the injection formation, within the ½ mile radius shown on the above plat in subparagraph h) 9) C), contain an adequate amount of cement and are constructed or plugged in a manner which will prevent the injection fluid and the fluid in the injection formation from entering USDWs. The types of evidence that will be considered acceptable include, but are not limited to: well completion reports, cementing records, well construction records, cement bond logs, tracer surveys, oxygen activation logs, and plugging records.
- 11) The Applicant shall submit evidence and/or information showing that the proposed injection interval or formation is not a USDW.
- i) Notice of the application shall be given by the Applicant by one (1) publication in a legal newspaper having a general circulation in the county, or in each county, if there shall be more than one, in which the one-half mile radius from the proposed disposal well is situated, and by mailing via certified mail, a copy of the application to each permit holder of all permitted, drilling or producing wells within a one-half mile radius of the proposed disposal well. Such notice shall be published or mailed no more than thirty (30) days, prior to the date on which the application is filed with the Commission. The cost of such notice and mailing of the application shall be paid for by the Applicant. Attached to the application shall be copies of the return mail receipts and a proof of publication of the application from the newspaper.
  - j) If notice is for a commercial disposal well, in addition to compliance with subparagraph i) above, the commercial disposal well application shall also be sent via certified mail, to the County Judge of the county where the well is located and to the landowner (surface owner) where the well is located. In addition, the public notice should be large font and surrounded by a printed border to highlight the published notice.

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- k) Objections received by the Director, stating the reasons why the proposed disposal well may cause damage to oil, gas resources or fresh water supplies, must be received by the Director within fifteen (15) days after the publication date of the notice and the date of mailing to all parties specified in subparagraphs i) and j) above.
- l) If an objection is received or if the application does not satisfy the requirements of this Rule, the application shall be denied. If the application is denied under this section, the Applicant may request to have the application referred to the Commission for determination, in accordance with General Rules A-2 and A-3, and other applicable hearing procedures, except that no additional filing fee is required.
- m) If an objection is not received by the Director and the application is deemed complete, the permit shall be issued following the required notice period specified in subparagraph i) above, unless the Director deems it necessary, for the purpose of protecting USDWs or oil and gas resources, that the application may be referred to the Commission for determination.
- n) The Commission retains jurisdiction to determine zones suitable for disposal injection based on the porosity, permeability, fluid capacity, structure, geology and overall suitability of the zone as a disposal injection interval with respect to protection of USDWs and oil and gas resources.

(Source: new rule July 17, 2009)

### **H-2 - WELL CONSTRUCTION, OPERATING AND REPORTING REQUIREMENTS FOR CLASS II DISPOSAL WELLS**

- a) No Class II Disposal Well, as defined in General Rule H-1 a) 1) (hereinafter referred to as “Class II Disposal Well”), for which a permit has been issued in accordance with General Rule H-1, shall be operated until well internal mechanical integrity has been established in accordance with sub-paragraph o) below, and an authority for initial commencement of injection operations is issued by the Director.
- b) Notice shall be provided to the Commission Regional Office where the Class II Disposal Well is located, prior to performing any well servicing activity, cementing, or any wireline logging activities, so as to allow commission staff to be present to observe the activity. Any well servicing which requires the resetting of the packer shall require an internal mechanical integrity test be run in accordance with subparagraph o) below, prior to re-commencement of injection.
- c) All well records for newly drilled Class II Disposal Wells shall be submitted in accordance General Rule B-5. Completion or recompletion reports and wireline logs for all subsequent well servicing, cementing or wireline logging activity performed on the well shall be filed no later than fifteen (15) days after completion of these activities.
- d) Following issuance of the permit to Drill and or Operate a Class II Disposal Well, an annual fee of \$100 per well shall be due each July 1<sup>st</sup> for the life of the well until the well is plugged.
- e) Surface and production casing requirements.
  - 1) Class II Disposal Wells shall be cased and cemented, in such manner that damage will not be caused to any USDW, as defined in General Rule H-1 a) 5) (hereinafter referred to as “USDW”), or oil and gas resources.
  - 2) For newly drilled Class II Disposal Wells

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- A) Set and cement surface casing 250 feet below the base of the lowermost USDW, and cement production casing to at least 250 feet above the proposed disposal zone; or
  - B) Set and cement surface casing to the base of the lowermost USDW, and cement production casing back to the surface.
- 3) For existing wells converted to Class II Disposal Wells
- A) Unless otherwise approved by the Director, production casing in the existing well is required to be cemented to at least 250 feet above the proposed disposal zone. A cement bond (CBL), gamma ray (GR) and density log (VDL) shall be required to verify the presence of the required casing cement. The CBL should indicate at a minimum an 80% bond index over the 250 foot cemented interval.
  - B) If a casing liner is required to provide well bore integrity above the required production cementing requirements in subparagraph e) 3) A) above, the liner must be set, at a minimum, below the cemented portion of the production casing and cemented back to surface.
- f) Tubing and packer requirements.
- 1) All injection shall be through tubing and packer. The packer shall be placed no higher than 100 feet above the uppermost perforations or the casing seat in an open hole completion, provided the packer is within the cemented portion of the production casing such that there is at least 50 feet of cement above the packer, and further provided the packer is no less than 500 feet below the base of the USDW.
  - 2) If the tubing and packer cannot be set or utilized in accordance with subsection f) 1) above, due to existing well construction conditions, the Permit Holder may request the Director to authorize an alternative packer setting depth or well construction. In determining an alternative packer setting depth or alternative well construction, the Director shall take into consideration the current construction of the well, the depth of the USDWs and the nature of the obstruction. If an alternative packer setting depth or well construction is authorized, the Director may require additional or more frequent internal mechanical integrity tests be performed on the well, or may require additional remedial or corrective work to assure that injection does not endanger USDWs.
  - 3) The Permit Holder shall contact the Regional Office in which the well is located at least 24 hours prior to the initial setting or any resetting of the packer in a Class II Disposal Wells to enable an inspector to be present when the packer is set.
- g) The wellhead shall be maintained in a leak-free condition, and must have a working pressure in excess of the maximum discharge pressure of the pump. The wellhead shall be configured to include a one half inch female fitting, with shut-off valve, to allow monitoring of the annulus between the production casing and the injection tubing and a one half inch female fitting, with shut-off valve, installed on the tubing to measure the injection pressure.
- h) The injection pressure shall not exceed the maximum injection pressure established in accordance with General Rule H-1 h) 8).

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- i) No change shall be made in the permitted injection zones unless the new zone is permitted in accordance with General Rule H-1.
- j) Injection fluids shall be confined to the permitted injection zones. If the Director has reason to believe, based upon well records or field observations, that injection fluids are migrating into zones not permitted for injection or into USDWs or to the surface or is causing fluid migration into the USDWs, due to the operation of any Class II Disposal Well or resulting from a failure of internal or external mechanical integrity of the well, the Permit Holder shall be required to shut-in the well until all necessary corrective work, which may include plugging of the well, is completed.
- k) Internal mechanical integrity shall be maintained in accordance with subparagraph o) below.
- l) Only Class II Fluids, as defined in General Rule H-1 a) 3), and/or fresh water can be injected into a Class II Disposal Well.
- m) Each well shall have a legible sign placed near the well showing the Permit Holder and the well name and number and permit number and section, township and range as shown on the permit in the Commission records.
- n) The Permit Holder of each Class II Disposal Well shall file a Quarterly Well Status Report on forms prescribed by the Director. The report shall be filed within thirty (30) days after the end of each quarter of a calendar year commencing on January 1 of each year. The report shall include at a minimum:
  - 1) Name and permit number of the well;
  - 2) Names of all injection intervals;
  - 3) Maximum daily injection rates and pressures; and
  - 4) Monthly volumes of fluid injected.
- o) Establishment of Internal Mechanical Integrity.
  - 1) Internal mechanical integrity must be maintained at all times. If internal mechanical integrity is lost, the Permit Holder shall shut-in the well immediately and notify the Regional Office where the well is located, of loss of internal mechanical integrity. The well shall remain shut-in until the necessary remedial action necessary to restore internal mechanical integrity is completed and a new internal mechanical integrity test run and successfully passed.
  - 2) An internal mechanical integrity test shall be performed:
    - A) Prior to initial injection into a newly permitted Class II Disposal Well;
    - B) Prior to initial injection into a Class II Disposal Well after a change to a newly permitted injection zone;
    - C) Prior to resuming injection into any Class II Disposal Well after any workover of the well involving the resetting or movement of a packer;

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- D) Whenever the Director has reason to believe, based upon well records or field observation, that the Class II Disposal Wells may be leaking or improperly constructed; and
  - E) At least once every five (5) years measured from the date of the last successful test.
- 3) Internal mechanical integrity test
- A) The following tests shall be performed on Class II Disposal Wells to establish the internal mechanical integrity of the tubing, casing and packer of the well. The Permit Holder shall contact the Regional Office in which the well is located at least 48 hours prior to conducting the test to enable an inspector to be present when the test is done.
    - i) Pressure Test

The casing-tubing annulus above the packer shall be tested under the supervision of a Commission representative at a minimum pressure differential between the tubing and the annulus of 50 PSIG for a period of 30 minutes. In addition, the casing-tubing annulus starting test pressure shall not be less than 300 PSIG and may vary no more than 10 percent of the starting test pressure during the test. The well may be operating or shut in during the test. The test pressure shall not exceed 1000 psig.
    - ii) Radioactive Tracer Survey Test

For those wells in which alternative well construction has been approved by the Director in accordance with subparagraph f) 2) above, a radioactive tracer survey may be run in the well at a frequency to be determined by the Director to evidence mechanical integrity of the well by demonstrating that the injected fluid is being injected into the approved disposal zone.
  - B) Any Class II Disposal Well which fails an internal mechanical integrity test, or on which an internal mechanical integrity test has not been performed when required, shall be shut in until the well is successfully tested or remedial work is commenced and completed or the well is plugged. The necessary work shall be completed and an internal mechanical integrity test successfully completed within ninety (90) days. The Director may approve up to an additional ninety (90) days, with any greater length of time to be established by the Commission upon application by the operator.
- p) If the Director has reason to believe, based upon well records or field observation, that any Class II Disposal Well is causing fluid migration into the USDWs resulting from a failure of internal or external mechanical integrity, the Permit Holder shall shut in the well until any necessary corrective work is commenced and completed and internal and external mechanical integrity is established.
- q) Class II Disposal Wells no longer in service for periods greater than 24 months shall be plugged or temporarily abandoned in accordance with General Rule B-7.

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(Source: new rule July 17, 2009)

### **H-3 - WELL CONSTRUCTION, OPERATING AND REPORTING REQUIREMENTS FOR CLASS II COMMERCIAL DISPOSAL WELLS**

- a) No Class II Commercial Disposal Well, as defined in General Rule H-1 a) 2) (hereinafter referred to as “Class II Commercial Disposal Well”) for which a permit has been issued in accordance with General Rule H-1, shall be operated until well internal mechanical integrity has been established in accordance with sub-paragraph o) below, and an authority for initial commencement of injection operations is issued by the Director.
- b) Notice shall be provided to the Commission Regional Office where the Class II Commercial Disposal Well is located, prior to performing any well servicing activity, cementing, or any wireline logging activities, so as to allow Commission staff to be present to observe the activity. Any well servicing which requires the resetting of the packer shall required an internal mechanical integrity test be run in accordance with subparagraph o) below, prior to re-commencement of injection.
- c) All well records for newly drilled Class II Commercial Disposal Wells shall be submitted in accordance General Rule B-5. Completion or recompletion reports and wireline logs for all subsequent well servicing, cementing or wireline logging activity performed on the well shall be filed no later than fifteen (15) days after completion of these activities.
- d) Following issuance of the permit to Drill and or Operate a Class II Commercial Disposal Well, an annual fee of \$100 per well shall be due each July 1<sup>st</sup> for the life of the well until the well is plugged.
- e) Surface and production casing requirements.
  - 1) Class II Commercial Disposal Wells shall be cased and cemented, in such manner that damage will not be caused to oil and gas resources or any USDW, as defined in General Rule H-1 a) 5) (hereinafter referred to as “USDW”).
  - 2) Existing wells shall be prohibited for re-completion as a Class II Commercial Disposal Well unless the well had been constructed at the time of original completion in accordance with subparagraph e) 3) below.
  - 3) Newly drilled Class II Commercial Disposal Wells:
    - A) Set and cement surface casing 250 feet below the base of the lowermost USDW, and cement production casing to at least 500 feet above the proposed disposal zone; or
    - B) Set and cement surface casing to the base of the lowermost USDW, ~~as~~ and cement production casing back to the surface.
    - C) A cement bond (CBL), gamma ray (GR) and density log (VDL) shall be required to verify the presence of the required casing cement. The CBL should indicate at a minimum an 80% bond index over the 500 foot cemented interval.
- f) Tubing and packer requirements.

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- 1) All injection shall be through tubing and packer. The packer shall be placed no higher than 100 feet above the uppermost perforations or the casing seat in an open hole completion, provided the packer is within the cemented portion of the production casing such that there is at least 50 feet of cement above the packer, and further provided the packer is no less than 750 feet below the base of the lowermost USDW.
- 2) The Permit Holder shall contact the District Office in which the well is located at least 24 hours prior to the initial setting or any resetting of the packer in a Class II Commercial Disposal Well to enable an inspector to be present when the packer is set.
- g) The wellhead shall be maintained in a leak-free condition, and must have a working pressure in excess of the maximum discharge pressure of the pump. The wellhead shall be configured to include a one half inch female fitting, with shut-off valve, to allow monitoring of the annulus between the production casing and the injection tubing and a one half inch female fitting, with shut-off valve, installed on the tubing to measure the injection pressure.
- h) The injection pressure shall not exceed the maximum injection pressure established in accordance with General Rule H-1 h) 8).
- i) No change shall be made in the permitted injection zones unless the new zone is permitted in accordance with General Rule H-1.
- j) Injection fluids shall be confined to the permitted injection zones. If the Director has reason to believe, based upon well records or field observations, that injection fluids are migrating into zones not permitted for injection or into USDWs, or to the surface, or is causing fluid migration into the USDWs, due to the operation of any Class II Commercial Disposal Well or resulting from a failure of internal or external mechanical integrity of the well, the Permit Holder shall be required to shut-in the well until all necessary corrective work, which may include plugging of the well, is completed.
- k) Internal mechanical integrity shall be maintained in accordance with subparagraph o) below.
- l) Only Class II Fluids, as defined in General Rule H-1 a) 3), and/or fresh water can be injected into a Class II Commercial Disposal Well.
- m) Each well shall have a legible sign placed near the well showing the Permit Holder and the well name and number and permit number and section, township and range as shown on the permit in the Commission records and an emergency telephone number.
- n) The Permit Holder of each Class II Commercial Disposal Well shall file a Monthly Well Status Report on forms prescribed by the Director. The report shall be filed within thirty (30) days after the end of each month of a calendar year commencing on January 1 of each year. The report shall include at a minimum:
  - 1) Name and permit number of the well;
  - 2) Names of all injection intervals;
  - 3) Maximum daily injection rates and pressures; and
  - 4) Monthly volumes of fluid injected.

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- 5) In addition, each Class II Commercial Disposal Well facility must keep an accurate log of each shipment of fluids to be disposed. This log shall include the generator (operator) of the fluid, well name, number and location or permit number of the well, amount of fluid and the date the shipment was received. A copy of this log must accompany the above Monthly Well Status Report.
- o) Establishment of Internal Mechanical Integrity.
    - 1) Internal mechanical integrity must be maintained at all times. If internal mechanical integrity is lost, the Permit Holder shall shut-in the well immediately and notify the Regional Office where the well is located, of loss of internal mechanical integrity. The well shall remain shut-in until the necessary remedial action necessary to restore internal mechanical integrity is completed and a new internal mechanical integrity test run and successfully passed.
    - 2) An internal mechanical integrity test shall be performed:
      - A) Prior to initial injection into a newly permitted Class II Commercial Disposal Well;
      - B) Prior to initial injection into a Class II Commercial Disposal Well after a change to a newly permitted injection zone;
      - C) Prior to resuming injection into any Class II Commercial Disposal Well after any workover of the well involving the resetting or movement of a packer;
      - D) Whenever the Director has reason to believe, based upon well records or field observation, that the Class II Commercial Disposal Well may be leaking or improperly constructed; and
      - E) At least once every year measured from the date of the last successful test.
    - 3) Internal mechanical integrity test
      - A) The following test shall be performed on Class II Commercial Disposal Wells to establish the internal mechanical integrity of the tubing, casing and packer of the well. The Permit Holder shall contact the Regional Office in which the well is located at least 48 hours prior to conducting the test to enable an inspector to be present when the test is done. The casing-tubing annulus above the packer shall be tested under the supervision of a Commission representative at a minimum pressure differential between the tubing and the annulus of 50 PSIG for a period of 30 minutes. The pressure at which the mechanical integrity test is to be performed shall be fifty (50) psig over injection pressure with a maximum of 1,000 psig. The minimum test pressure shall be 300 psig.
      - B) Any Class II Commercial Disposal Well which fails an internal mechanical integrity test, or on which an internal mechanical integrity test has not been performed when required, shall be shut in until the well is successfully tested or remedial work is commenced and completed or the well is plugged. The necessary work shall be completed and an internal mechanical integrity test successfully completed within ninety (90) days. The Director may approve up to an additional ninety (90) days, with any greater length of time to be established by the Commission upon application by the operator.

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- p) All commercial facilities must have restricted entry to all nonessential traffic. A lockable gate must be maintained and shall be locked during all unmanned hours. Additionally, the Director may require a fence to limit entry to the facility.
- q) Permit Holders may be required to take periodic samples of the injection fluid and have those samples analyzed at a certified lab. Samples of the injection fluid may also be taken periodically by a Commission representative. Samples will be checked for compliance with Class II fluids as defined in General Rule H-1.
- r) If the Director has reason to believe, based upon well records or field observation, that any Class II Commercial Disposal Well is causing fluid migration into the USDWs resulting from a failure of internal or external mechanical integrity, the Permit Holder shall shut in the well until any necessary corrective work is commenced and completed and internal and external mechanical integrity is established.
- s) Class II Commercial Disposal Wells no longer in service for periods greater than 12 months shall be plugged in accordance with General Rule B-7.

(Source: new rule July 17, 2009)

## **LAWS PERTAINING TO OIL, GAS, AND SALT WATER**

[See Arkansas Code, Annotated, Title 15 \(1987\)](#)

### **SEVERANCE TAX CREDIT FOR A DISCOVERY WELL**

Instructions for filing an application for severance tax benefits for discovery wells, as provided for by Act 258 of the 1957 regular session of the Arkansas General Assembly, whose effective date is June 13, 1957.

1. Prepare a letter of application addressed to the Arkansas Oil and Gas Commission, P.O. Box 1472, El Dorado, Arkansas 71731-1472. The letter must be filed with the Notice of Intention to Drill (AOGC-2). Said letter should contain the following information:
  - a. State that the applicant desires to make application for severance tax benefits for a discovery well.
  - b. State the location of the proposed discovery well.
  - c. Give the legal description of the acreage within a two mile radius of the proposed discovery well to which the applicant is the owner of record as of the date of application, or has the right to drill upon by farmout agreement. (Attach a map showing the outline of above acreage).
  - d. State that the location is outside the geographical confines of a known producing oil field.
  - e. State that the proposed discovery well shall be drilled within a period of one calendar year from date of application.
  - f. Have the letter sworn to before a notary public and have the notary public attach his seal and signature.
2. Upon receipt of the above information the Director of the Oil and Gas Commission will issue a "Discoverer's Certificate of Intent" to the applicant.
3. Upon completion of the well, and after determination that said well is entitled to the severance tax benefits, the Director of the Oil and Gas Commission will issue a "Discoverer's Certificate of Discovery" Copies will be mailed to the applicant, the Department of Finance and Administration, Revenue Division, and to the purchaser of the oil.

### **REQUIREMENTS FOR PUMPING RESERVE PITS INTO WELLS**

(Must be filed three days prior to beginning abandonment procedure.)

1. Surface casing must be set at least 250' below the last known fresh water sand.
2. All bottom hole plugs must be set as required by Arkansas Oil and Gas Commission Rules and Regulations before pumping operations can begin.
3. Submit request for disposal of reserve pit fluids.