

**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.

- 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 1st of each year. Failure to submit the required reports by February 1st 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.

MARK- UP

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

~~When the well to be plugged may safely be used as a fresh water well and such utilization is desired by the landowner, the well need not be filled above the required sealing plug set below fresh water; provided, that written authority for such use is secured from the landowner and filed with the Commission.~~

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 maybe subject to other applicable State laws.
- 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.

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.

MARK-UP

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; or
 3. ~~An application to transfer control of an existing dry gas well to a landowner for personal domestic use.~~
- 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
 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, ~~and who is authorized to do business in Arkansas. If the issuing bank does not have an office for collection in Arkansas, a confirming bank shall be designated as authorized to accept, negotiate and pay the letter of credit upon presentment by the Director of Production and Conservation or his designee.~~
 - 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.
4. 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
 - 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 amount of the Financial Assurance shall be:
 - 1. \$1,500 for a landowner use dry gas well from which gas is not sold for commercial purposes; or
 - 2. \$3,000 per well for an oil and /or gas production well, Class II disposal or injection well; brine production well, Class V brine disposal well, water supply well, or other type of exploratory hole or well; or
 - 3. \$25,000 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 by all permit holders of liquid hydrocarbon wells and associated Class II injection and disposal 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.
 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:
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| 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:

- a. 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.
- b. 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.
- c. 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 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.
- d. 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.
- e. 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)

MARK UP

RULE B – 4 IDENTIFICATION OF WELLS WELL DRILLING, COMPLETION AND WORKOVER REQUIREMENTS

- a) Definitions used in this rule:
- 1) “ADEQ” means the Arkansas Department of Environmental Quality.
 - 2) “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.
 - 3) "Completion Fluids" means liquids that are used in completion or workover activities in a well including saltwater, crude and refined oil products, frac fluids, acids and other treatment chemicals.
 - 4) "Fresh Water Based Drilling Fluid Liquid Waste" means drilling fluids or any other freshwaters or saltwaters that are generated from the well or used during drilling activities where freshwater drilling fluids have been used.
 - 5) "General Oilfield Waste" means oily rags, chemical containers including any unused chemicals, oil filters and gaskets, used motor oil, lubricating oils, hydraulic fluids, diesel fuels, paint and solvent wastes and other similar wastes generated during drilling, completion, and/or workover activities and which are not exempt from the provisions of Subtitle C of the Federal Resource Conservation Recovery Act of 1976.
 - 6) “USDW” means Underground Source of Drinking Water as defined by the Federal Safe Drinking Water Act.
- b) No Permit Holder shall commence drilling operations until a Commission issued drilling permit is approved. A copy of the permit shall be posted on site during drilling operations.
- c) The Permit Holder shall notify the appropriate Commission Regional Office within forty-eight (48) hours prior to commencement of drilling operations. Commission staff may conduct site inspections as deemed necessary and to witness the setting of surface casing.
- d) Upon completion of drilling operations, Freshwater Based Drilling Fluid Liquid Waste may be disposed in the following manners:

- 1) placed into the well recently drilled if that well is a dry hole in which all required bottom-hole plugs have been properly set, and in which surface casing has been set to at least 250 feet below the lower most USDW and pressure tested as determined by the Director; or
 - 3) placed in the annular space between the surface casing and production casing of the recently drilled well in which the surface casing has been set to at least 250 feet below the lower most USDW and pressure tested as determined by the Director; or
 - 4) injected into a properly permitted Class II UIC Disposal Well, permitted in accordance with General Rule C-7; or
 - 5) injected into a previously drilled inactive production well which has been equipped with tubing and packer. Said packer shall 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. 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. Injection activities shall not exceed 45 days, after which time the well shall be immediately plugged in accordance with General Rule B-8; or.
 - 6) disposed, re-used, or recycled in accordance with applicable ADEQ approved methods.
- e) During completion and/or workover activities, all completion fluids temporarily stored at the well site prior to use in completion and/or workover activities, shall be stored in above ground leak free containers utilizing site appropriate spill containment measures.
 - f) During all drilling, completion, and/or workover activities, all General Oilfield Waste or other trash or debris shall be placed in proper storage containers and disposed properly in accordance with applicable state laws and regulations.
 - g) Spills of any fluids used during drilling, completion, and/or workover activities shall be immediately contained; the cause of the spill shall be appropriately repaired as soon as practical. Failure to contain the spill or appropriately repair the cause may result in the issuance of an order to cease operations until the spill is contained and/or cause appropriately repaired. Remediation of the area effected by the spill shall be in accordance with ADEQ requirements.
 - h) In accordance with Ark. Code Ann. § 15-72-214, any surface owner seeking to recover damages caused by the neglect of the Permit Holder during drilling operations must file written notice of claim against the Permit Holder's applicable financial assurance as follows:

- 1) Any claim must be filed on a form prescribed by the Director within one (1) year of the date of issuance of the applicable drilling 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 the negligence of the permit holder; 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 thirty (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.
- 4) If the Permit Holder's financial assurance is forfeited, the Permit Holder shall cease all operations until another bond in the same amount of the original bond is filed with the Commission for the same purposes of the original bond.

MARK-UP

RULE D-8 – MONTHLY NATURAL GAS PRODUCTION REPORTS FROM GAS PURCHASERS

- a) All natural gas produced and sold from oil wells and from gas wells within the State of Arkansas, ~~which is taken into a fuel system or other system (except~~ natural gas taken into a gasoline, cycling or other extraction plant gathering system~~), which is required to be reported~~ represented on the “Monthly Gasoline or Other Extraction Plant Report”, (under in accordance with the provisions of Rule F-3, ~~hereof)~~ shall be reported by the producer monthly ~~on~~ in a form prescribed by the Director. said “Monthly Gas Report.” ~~Where such gas is taken from an oil or gas well by the producer, then the producer shall make such report. In case where the gas is sold taken at the well by any person other than the producer, then such person taking the gas shall make said report. the producer shall remain responsible for reporting all production sold. The person or producer thus required to make this report shall execute and file in the manner hereinafter directed, a “Monthly Gas Report,” in accordance with instructions on the form, on or before the 15th day of the next succeeding month.~~
- b) Monthly production reports are required to be filed for each well, whether the well has or has not produced during the month. The reports shall be filed on a form prescribed by the Director and shall be filed with the commission forty five (45) 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)