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 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 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.

(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 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-l6.

(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~~ all owners, as defined by Ark. Code Ann. (1987) § 15-72-102(9), 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) Administrative Approval of Wells that Extend Across or Encroach Upon Drilling Unit Boundaries. ~~However, i~~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~~ are all 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, if the following conditions are met:

A. There is either

i) Existing and current production from at least one well located, as defined in Section (a)(2) of General Rule B-3, entirely within each included unit; or

ii) Existing and current production from at least one well located, as defined in Section (a)(2) of General Rule B-3, within each included unit; and

B. Notice has been given to all owners, as defined by Ark. Code Ann. (1987) § 15-72-102(9); and

C. The application sufficiently identifies the geologic rationale, how the proposed well protects the correlative rights of all parities, or how the proposed well will maximize ultimate recovery and prevent waste by including detailed geographic and topographic maps indicating current well locations and future well development plans in all included drilling units.

2) 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~~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.~~ Ark. Code Ann. (1987) § 15-72-102(9), within each of the drilling units in which the proposed well is to be drilled and/or completed.

~~3~~4) 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 application filing and verify such mailing by affidavit, setting out the names and addresses of all owners, as defined by Ark. Code Ann. (1987) § 15-72-102(9), and the date(s) of mailing.

~~4~~5) Any owner, as defined by Ark. Code Ann. (1987) § 15-72-102(9), noticed in accordance with subsection (o)~~(3~~4) 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~~ 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 requirements, except that no additional filing fee is required.

~~5~~6) 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, in order to prevent waste, or for any other reason. 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. If the application is referred under this section, the applicant shall file a request for a hearing, in accordance with General Rules A-2 and A-3, and other applicable hearing requirements, except that no additional filing fee is required.

~~6~~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 subsection (o)~~(4~~5), the application shall be approved and a drilling permit issued.

~~7~~8) Upon receipt of the drilling permit, the applicant shall give the other ~~working interest parties~~ owners, as defined by Ark. Code Ann. (1987) § 15-72-102(9), written notice that the drilling permit has been issued. The ~~working interest parties~~ owners, as defined by Ark. Code Ann. (1987) § 15-72-102(9), 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 or units.

~~8~~9) 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.

MARK-UP

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 ~~production~~ 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 ~~well has or has not produced~~ 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.

MARK-UP

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

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(l) 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(l) 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) (l), 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 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 sub-paragraph, 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:

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

Allowable = AOF x 0.75

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

Allowable = AOF x 0.75 x unit acreage/640(standard unit acreage)

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

Allowable = AOF x 0.75 x penalty factor (encroachment footage/legal footage)

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

Allowable = AOF x 0.75 x penalty factor (encroachment footage/legal footage) x unit acreage/640(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.