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, Stone, 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 or encroaches upon drilling unit boundaries unless all owners, as defined in Ark. Code Ann. (1987) § 15-72-102(9), in all units consent in writing to a well closer than 560 feet. Consent may be given prior to the drilling of a well, while a well is being drilled, or after a well has been drilled, but prior to commencement of production.

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 a well closer than 448 feet. Consent may be given prior to the drilling of a well, while a well is being drilled, or after a well has been drilled, but prior to commencement of production.

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 ~~initial and annual~~ testing provisions of General Rule D-16 and production allowable provisions of General Rule D-~~16~~ 21. Wells completed in and producing from only unconventional sources of supply, as defined in Section (a), shall not be subject to the ~~initial and annual~~ testing ~~and test reporting~~ provisions of General Rule D-16 and allowable provisions of General Rule D-21. ~~except that the initial test shall apply to those wells which produce with a reduction in the allowable due to an encroachment penalty. All required initial and annual tests may be performed without the presence of a Commission representative following notice as provided for in General Rule D-16.~~ There shall be no production allowable established for wells producing from unconventional sources of supply located within the covered lands. Wells completed in and producing from only unconventional sources of supply, within the covered lands, shall report on a form prescribed by the Director, the highest twenty-four (24) hour production rate during the first forty (40) days of production, which form shall be filed within sixty (60) days of the date of first production from the well.

(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~~ 21.

(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 in accordance with General Rule D-8.

(o) The Commission specifically retains jurisdiction to consider applications brought before the Commission from a majority in interest of 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/or 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) Encroaching Wells. If a well encroaches upon but does not cross the drilling unit boundary of an adjoining drilling unit (an "encroaching well"), the Commission shall not consider the encroached upon drilling unit to be held by production from the encroaching well.

2) Administrative Approval of Wells that Extend Across or Encroach Upon Drilling Unit Boundaries. If the majority in interest of all owners, as defined by Ark. Code Ann. (1987) § 15-72-102(9), within each drilling unit agree to share a proposed well, a well that is being drilled, or a well which has been drilled, but prior to commencement of production, between two or more adjoining drilling units which are all integrated or are 100% leased 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. The application provides proof that:

i) There is at least one well located, as defined in subsection (a)(2) of General Rule B-3, at a non-exceptional well location and located entirely within each included drilling unit that is producing or capable of producing gas; or

ii) Within twelve (12) months following the date the well for which administrative approval is granted is spud, there will be at least one well located, as defined in subsection (a)(2) of General Rule B-3, at a non-exceptional well location and located entirely within each included drilling unit that is either a well that is producing gas, or a well that is capable of producing gas and awaiting connection to a pipeline; or

iii) There is at least one well or a combination of multiple wells, including cross unit wells and/or encroaching wells located, as defined in subsection (a)(2) of General Rule B-3, within each included drilling unit that have a total combined perforated lateral length within the drilling unit of not less than 4160 feet, and are producing or are capable of producing gas; or

iv) Within twelve (12) months following the date the well for which administrative approval is granted is spud, there will be at least one well or a combination of multiple wells, including cross unit wells and or encroaching wells located, as defined in subsection (a)(2) of General Rule B-3, within each included drilling unit that have a total combined perforated lateral length within the drilling unit of not less than 4160 feet, and are producing or are capable of producing gas and awaiting connection to a pipeline; or

v) At least seventy five percent (75%) of the fee mineral ownership within each included drilling unit that does not contain one or more wells satisfying the requirements of subpart 2)A.i) or subpart 2)A. iii) above agree in writing to the well; and

B. Notice has been given to all owners, as defined by Ark. Code Ann. (1987) § 15-72-102(9) and no objections were received by the Director in accordance with subsection 2) I) below; and

C. The application includes detailed plat maps indicating current well locations and potential future well development plans in all included drilling units.

D. If administrative approval is granted, based upon either or both of subsection 2)A.ii) or iv) above, and the applicant fails to satisfy one of the conditions specified in subsection 2)A.ii) or iv) above, the drilling permit and all other authorities for the well shall be automatically revoked, and the well shall be shut in, unless the applicant has filed a request in accordance with General Rule A-2, A-3, and other applicable hearing procedures prior to the expiration of the time period specified in such subsections, or the Commission otherwise approves the application.

E. 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:

i) 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”).

ii) 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.

F. 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 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.

G. Concurrently with the filing of an application utilizing the above methodology, the applicant shall send to each owner specified in subsection 2)F. 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.

H. Any owner, as defined by Ark. Code Ann. (1987) § 15-72-102(9), noticed in accordance with subsection 2) G) 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 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.

I. 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 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.

J. 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 2)I, the application shall be approved and a drilling permit issued.

K. Upon receipt of the drilling permit, the applicant shall give the other owners, as defined by Ark. Code Ann. (1987) § 15-72-102(9), written notice that the drilling permit has been issued. The 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.

L. Following completion of the well and prior to the issuance of the Certificate of Compliance to commence production, the final location of the perforated interval shall be submitted to the Director to verify the proposed portion of the calculated area occurring within each drilling unit as specified in subsection 2) E) above.

3) Filing of Affidavit. The Applicant shall also file an affidavit or other document showing the calculated area allocated and assigned to each drilling unit, according to the final calculation of the area, occurring within each drilling unit with the Director and in the real estate property records in all counties where any portion of the drilling units are located.

(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.

RULE B-44: ESTABLISHMENT OF DRILLING UNITS FOR GAS PRODUCTION FROM ALL SOURCES OF SUPPLY OCCURING 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;

(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) 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.

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 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 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 and allowable provisions of General Rule D-21, 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 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 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.

RULE B-45: ESTABLISHMENT OF WELL SET-BACK REQUIREMENTS FOR DRY GAS PRODUCTION WELLS OCCURING IN ESTABLISHED FIELDS IN CRAWFORD, FRANKLIN, JOHNSON, LOGAN, MADISON, POPE, SCOTT, YELL, SEBASTIAN AND WASHINGTON COUNTIES

a) Applicability

1) Except as provided in subparagraph a) 2) below, this rule applies to all controlled sources of supply, as defined in Ark Code Ann. § 15-71-107, occurring within any existing field created by an order of the Commission within Crawford, Franklin, Johnson, Logan, Madison, Pope, Scott, Yell, Sebastian and Washington Counties.

2) This rule does not apply to:

A) The Hartshorne Coal Formation or any other coal formation;

B) Any uncontrolled conventional source of supply occurring within the Commission established fields covered by this rule;

C) Any source of supply governed by General Rule B-43, or

D) Any source of supply governed by General Rule B-44.

3) After notice and hearing, the Commission shall retain jurisdiction to extend the provisions of this rule to any new fields established by the Commission.

4) This rule applies to wells in which controlled and uncontrolled sources of supply are commingled.

b) Definitions

1) "Encroachment Footage" shall mean the actual footage of the New or Existing PRU from the drilling unit boundary, when that footage is less than the Setback Footage specified by rule.

2) "Existing PRU" shall mean a production reporting unit, which is either an individual producing zone or approved commingled producing zones within a dry natural gas well which was previously productive prior to the effective date of this rule.

3) "FUB" shall mean distance from a drilling unit boundary line.

4) "New PRU" shall mean a production reporting unit, which is either an individual producing zone (in a newly drilled dry natural gas well or a new zone in an existing dry natural gas well) or approved commingled producing zones within a dry natural gas well which becomes productive after the effective date of this rule.

5) "Penalty Allowable" shall mean the PRU Deliverability of the New or Existing

PRU, subject to a Penalty Factor, a New or Existing PRU is allowed to produce and sell on a per day basis.

6) "Penalty Factor" shall mean the factor which is multiplied by the New or Existing PRU to impose a penalty (or reduction) upon the PRU Deliverability.

7) "PRU Deliverability" shall mean the measured volume of dry natural gas from an Existing or New PRU under normal operating conditions for that Existing or New PRU as determined by the IOPT or Production Test.

8) "Setback Footage" shall mean the required minimum distance a New or Existing PRU must be from the drilling unit boundary.

c) After the effective date of this rule, the Setback Footage for all drilling units subject to this rule shall be as follows:

1) For all existing drilling units with a Setback Footage that is less than 660 feet, the Setback Footage shall remain unchanged.

2) For all existing drilling units with a Setback Footage that is 660 feet or greater, the revised Setback Footage shall be re-established to 660 feet.

d) After the effective date of this rule, any Existing PRU not subject to a Penalty Allowable may produce at the PRU Deliverability.

e) After the effective date of this rule, any New PRU not subject to a Penalty Allowable may produce at the PRU Deliverability.

f) The Penalty Allowable, for any Existing or New PRU, after the effective date of this rule shall be determined as follows:

1) For any Existing PRU where the Setback Footage is equal to or greater than 660 feet, and where the Setback Footage has been re-established to 660 feet in accordance with subparagraph c) 2) above, the previously imposed penalty on the allowable established prior to the adoption of this rule shall be removed and the Existing PRU allowed to produce at the PRU Deliverability.

2) For any Existing PRU where there is Encroachment Footage, and where the Setback Footage has been re-established to a 660 feet in accordance with subparagraph c) 2) above, the previously imposed penalty on the allowable established prior to the adoption of this rule shall be re-calculated based on the revised Setback Footage of 660 feet in order to calculate the Penalty Allowable, except that any Existing PRU that has a re-calculated Penalty Allowable of less than 75 MCFD shall be assigned a Penalty Allowable of 75 MCFD.

3) For any Existing PRU, where the Setback Footage remains unchanged in accordance with subparagraph c) 1) above, the Penalty Allowable established prior to the adoption of this rule shall remain in effect, except that any Existing PRU that has a re-calculated Penalty Allowable of less than 75 MCFD shall be assigned a Penalty Allowable of 75 MCFD.

4) No New PRU may be located less than 660 feet FUB where the Setback Footage has been re-established to a 660 feet in accordance with subparagraph c) 2) above, or closer than the applicable Setback Footage that remained unchanged in accordance with subparagraph c) 1) above, unless approved in accordance with General Rule B-40, or an alternative is approved by the Commission after notice and hearing.

g) In accordance with subparagraph f) 2) above, the Penalty Allowable shall be calculated as follows:

1) If the Encroachment Footage encroaches upon only one boundary of said drilling unit, the Penalty Allowable shall be the greater of 75 MCFD or calculated as follows:

Penalty Allowable = PRU Deliverability x Penalty Factor (Encroachment Footage ÷ Setback Footage) x proposed drilling unit acreage ÷ 640 acres or applicable established drilling unit acreage

2) If the Encroachment Footage encroaches upon two boundaries of said drilling unit, then the Penalty Allowable shall be the greater of 75 MCFD or the cumulative of the penalties calculated as follows:

Penalty Allowable = PRU Deliverability x Penalty Factor [(1st Encroachment Footage + 2nd Encroachment Footage) ÷ Setback Footage – 1] x proposed drilling unit acreage ÷ 640 acres or applicable established drilling unit acreage

h) Sales in Excess of the Penalty Allowable

1) An Existing or New PRU subject to a Penalty Allowable in accordance with this rule shall have an annual balancing date of July 1, where the preceding 12 month (July 1 – June 30) sales must be reconciled with the preceding 12 month Penalty Allowable to determine if the PRU had excess sales.

2) An Existing or New PRU subject to a Penalty Allowable which has sales in excess of the assigned Penalty Allowable must be shut-in on the annual balancing date of July 1 and remain shut-in until all excess sales is eliminated. The shut-in period shall be determined by dividing the excess sales by the Penalty Allowable.

3) Any Existing or New PRU subject to a Penalty Allowable which has excess sales on the annual balancing date of July 1 and which fails to shut-in within 30 days after the July 1, may be subject to a civil penalty not to exceed two thousand five hundred dollars ($2,500.00) per day for every day the PRU produced beyond the 30 day period, 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.

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.~~

a) Applicability

This rule shall only apply to dry natural gas wells for which it is necessary to determine the PRU Deliverability in accordance with General Rules A-7, B-43, B-44, D-19, D-21, or the request of the Director, or his designee, to conduct a back pressure test on a dry natural gas well.

b) Definitions

1) "Existing PRU" shall mean a production reporting unit, which is either an individual sources of supply or approved commingled producing zones within a dry natural gas well which was previously productive prior to the effective date of this rule.

2) "IOPT" shall mean an Initial One-Point Test performed to determine PRU Deliverability.

3) "New PRU" shall mean a production reporting unit, which is either an individual producing zone (in a newly drilled dry natural gas well or a new zone in an existing dry natural gas well) or approved commingled producing zones within a dry natural gas well which becomes productive after the effective date of this rule.

4) "Permit Holder" shall mean the person to whom the permit is issued and is responsible for all regulatory requirements relative to the production well.

5) "Production Test" shall mean any One-Point Test that is performed to determine PRU Deliverability which occurs after a successful One-Point Test has been performed.

6) "PRU Deliverability" shall mean the measured volume of dry natural gas from an Existing or New PRU under normal operating conditions for that Existing or New PRU as determined by the IOPT or Production Test.

c) An IOPT shall be conducted for any New PRU for the purpose of determining the PRU Deliverability. If a New PRU cannot be tested to determine the PRU Deliverability, a written explanation setting forth in detail the reasons why such IOPT cannot be obtained shall be submitted, along with a request for an alternative methodology to determine the PRU Deliverability.

d) Further Production Testing of an Existing or New PRU following an IOPT is not required

except for purposes of retesting at the request of the Permit Holder to establish a penalty allowable in accordance with General Rule D-21, determining marginal well status for severance tax purposes in accordance with General Rule A-7, an additional completion request in accordance with D-19, or if requested by the Director or his designee.

e) IOPT or Production Testing Requirements:

1) Notice – The Permit Holder of the PRU shall provide notice in the manner prescribed by the Director, or his designee, at least seventy-two (72) hour notice in advance of an IOPT or a Production Test.

2) When to Conduct Test – The Permit Holder shall conduct the IOPT within ten (10) calendar days of commencement of production of a New PRU. The Director, or his designee, shall retain the right to require a re-test of an Existing or New PRU at any time. Additionally, the Permit Holder shall have the right to request a retest of an Existing or New PRU at any time.

3) Filing of Documents – The Permit Holder shall submit the results of the IOPT or Production Test within ten (10) business days of the test date.

4) AOGC Staff Witness – The IOPT is required to be witnessed by a representative of the AOGC unless the Permit Holder is notified by the AOGC that the test shall not be witnessed. Production tests for purposes of establishing marginal well determination, in accordance with General Rule A-7, are required to be witnessed by a representative of the AOGC. AOGC staff witness will be subject to notice by the Permit Holder in accordance with subparagraph (e) (1) above and subject to availability of an AOGC staff witness. All tests shall be conducted during normal working hours of the Commission unless otherwise approved by the Director or his designee.

f) Testing Methodology – An IOPT or Production Test shall be conducted to determine the PRU Deliverability. All tests shall be reported on a form prescribed by the Director, or his designee, and conducted as follows:

1) Before a test is started, the wellbore should be cleared of any accumulated fluids.

2) The Dry Natural Gas from the Existing or New PRU shall be flowed through the production facilities into the pipeline for a minimum of 24 hours. 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 the Director or his designee.

3) Should the flow rate not be obtained to determine PRU Deliverability, the Permit Holder shall provide a written explanation setting forth in detail the reasons why such flow rate could not be obtained in accordance with this procedure. The Director, or his designee, may authorize an alternative method to determine PRU Deliverability.

RULE D-21: PROCEDURES FOR DETERMINING THE PRODUCTION ALLOWABLE FOR DRY NATURAL GAS PRODUCTION WELLS

a) Applicability

This rule shall only apply to dry natural gas wells for which it is necessary to determine the PRU Deliverability in accordance with General Rules B-43, B-44 and other applicable General Rules, Field Rules or Commission Orders. This rule shall not apply to any PRU subject to provisions of General Rule B-45.

b) Definitions

1) "Allowable" shall mean the PRU Deliverability for a New or Existing PRU is allowed to produce and sell on a per day basis.

2) "Encroachment Footage" shall mean the actual footage of the New or Existing PRU from the drilling unit boundary, when that footage is less than the Setback Footage specified by rule.

3) "Existing PRU" shall mean a production reporting unit, which is either an individual producing zone or approved commingled producing zones within a dry natural gas well which was previously productive prior to the effective date of this rule.

4) "New PRU" shall mean a production reporting unit, which is either an individual producing zone (in a newly drilled dry natural gas well or a new zone in an existing dry natural gas well) or approved commingled producing zones within a dry natural gas well which becomes productive after the effective date of this rule.

5) "Penalty Allowable" shall mean the PRU Deliverability of the New or Existing PRU, subject to a Penalty Factor, a New or Existing PRU is allowed to produce and sell on a per day basis.

6) "Penalty Factor" shall mean the factor which is multiplied by the New or Existing PRU to impose a penalty (or reduction) upon the PRU Deliverability.

7) "PRU Deliverability" shall mean the measured volume of dry natural gas from an Existing or New PRU under normal operating conditions for that Existing or New PRU as determined by the IOPT or Production Test conducted in accordance with General Rule D-16.

8) "Setback Footage" shall mean the required minimum distance a New or Existing PRU must be from the drilling unit boundary.

9) "FUB" shall mean distance from a drilling unit boundary line.

c) Any New or Existing PRU, not subject to a Penalty Factor in accordance with subparagraph f) below, shall be subject to an allowable as follows:

1) A New or Existing PRU ~~with a PRU Deliverability of greater than or equal to 1 MMCF per day~~ shall have an allowable determined as follows: Allowable = PRU Deliverability x ~~0.75 x~~ (proposed drilling unit acreage ÷ 640 acres or applicable established drilling unit acreage)

2) ~~A New or Existing PRU with a PRU Deliverability of less than 1 MMCF per day, and not subject to a penalty factor, shall have an allowable determined as follows: Allowable = PRU Deliverability.~~

A New or Existing PRU with a PRU Deliverability of less than 75 MCFD shall have an allowable determined as follows: Allowable = 75 MCFD. PRU Deliverability of less than 75 MCFD shall be demonstrated by either:

A) Conducting a test utilizing the methodology specified in General Rule D-16; 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.

d) Any New or Existing PRU subject to a Penalty Allowable, the Penalty Allowable shall be determined as calculated as follows:

1) If the Encroachment Footage encroaches upon only one boundary of said drilling unit, the Penalty Allowable shall be the greater of 75 MCFD or calculated as follows:

Penalty Allowable = PRU Deliverability ~~x (0.75 only if PRU Deliverability is greater than or equal to 1 MMCF per day)~~ x Penalty Factor (Encroachment Footage ÷ Setback Footage) x proposed drilling unit acreage ÷ 640 acres or applicable established drilling unit acreage.

2) If the Encroachment Footage encroaches upon two boundaries of said drilling unit, then the Penalty Allowable shall be the greater of 75 MCFD or the cumulative of the penalties calculated as follows:

Penalty Allowable = PRU Deliverability ~~x (0.75 only if PRU Deliverability is greater than or equal to 1 MMCF per day)~~ x Penalty Factor [(1st Encroachment Footage + 2nd Encroachment Footage) ÷ Setback Footage] x proposed drilling unit acreage ÷ 640 acres or applicable established drilling unit acreage

e) Sales in Excess of the Penalty Allowable

1) An Existing or New PRU subject to a Penalty Allowable in accordance with this rule shall have an annual balancing date of July 1, where the preceding 12 month (July 1 – June 30) sales must be reconciled with the preceding 12 month Penalty Allowable to determine if the PRU had excess sales.

2) An Existing or New PRU subject to a Penalty Allowable which has sales in excess of the assigned Penalty Allowable must be shut-in on the annual balancing date of July 1 and remain shut-in until all excess sales is eliminated. The shut-in period shall be determined by dividing the excess sales by the Penalty Allowable.

3) Any Existing or New PRU subject to a Penalty Allowable which has excess sales on the annual balancing date of July 1 and which fails to shut-in within 30 days after the July 1, may be subject to a civil penalty not to exceed two thousand five hundred dollars ($2,500.00) per day for every day the PRU produced beyond the 30 day period, 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.