

FINAL**GENERAL 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 Commission 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 regular governmental sections with 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, the appropriate well and completion reports in accordance with General Rule B-5. Upon the filing of the required well and completion reports for a subject well, 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 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.
- (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.
- (i) The well spacing for wells drilled in established 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 other well locations within an established drilling unit;
 - 3) No more than 16 wells may be drilled per 640 acres for each separate unconventional source of supply within an established drilling unit; 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. .
- (j) The well spacing for wells drilled in established 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 but greater than 560 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 annual testing and test reporting provisions of General Rule D-16, except that the annual tests 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.
- (m) The commingling of completions for unconventional sources of supply within each well situated on an established drilling unit, shall be subject to the provisions and approval process outlined in General Rule D-18. If an unconventional source of supply is approved to be commingled with a conventional source of supply within a well situated on an established drilling unit, the well shall be subject to the production allowable provisions of General Rule D-16.
- (n) The reporting requirements of General Rule B-5 shall apply to all wells subject to the provisions of this rule. In addition, the operator of each such well shall be required to file monthly gas production reports, on a Form approved by the Director, no later than 45 days after the last day of each month.
- (o) The Commission specifically retains jurisdiction to consider applications brought before the Commission from a majority in interest of working interest owners in two or more adjoining established 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.

- (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.