

GENERAL RULES AND REGULATIONS

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

- a) The Director of Production and Conservation or his designee is authorized to issue a Drilling Permit for a well proposed to be drilled at a location within an established drilling and production unit, which fails to conform to the setback distance requirements from unit boundary lines under applicable field rules or Commission general rules. This rule is only applicable to vertically or directionally drilled wells and does not apply to horizontally drilled wells or any type of well drilled as a wildcat well, as defined in General Rule B-3, or for wells drilled in Exploratory Units established by Commission order.
- b) In each such instance in which a permit is issued, a reduction in the allowable to which such well would otherwise be entitled under the provisions of the applicable field rules or other general well spacing rules, shall be assessed by multiplying a fraction, the numerator of which shall be the distance expressed in feet between the location of such proposed well and the boundary of the drilling and production unit in which the well is to be drilled and the denominator of which shall be the distance expressed in feet at which wells within such field and/or drilling unit are otherwise required to be located. If the proposed location encroaches upon more than one boundary of said unit, then the penalty to be imposed upon the production allowable shall be cumulative of the penalties from both boundaries as described in Section (c) below.
- c) If the proposed location encroaches upon more than one boundary as specified in section (b) above, the reduction in the allowable shall be calculated as follows:

First boundary encroachment expressed as:

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

Second boundary encroachment expressed as:

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

Then:

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

Then:

$$\text{full calculated allowable (MCF) (minus)(-) amount allowable reduced (MCF) = production allowable (MCF)}$$

- d) Each such application for an exceptional location shall be submitted on a form prescribed by the Director of Production and Conservation, accompanied by an application fee of \$500.00 and include the name and address of each owner, as defined in A.C.A. § 15-72-102(9), within the unit in which the proposed well is to be drilled and within the units offsetting the boundary line or lines which shall be encroached upon by the proposed exceptional well location.
- e) Concurrently with the filing of an application in accordance with this rule, the applicant shall send to each owner specified in Section (d) 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.

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- f) Any owner noticed in accordance with section (e) 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.
- g) An application may be referred to the Commission for determination when the Director: (1) deems the penalty to be imposed upon the allowable for such well, calculated as herein provided, to be inadequate to offset any advantage which the applicant may have over any other producer, as defined in A.C.A. § 15-72-102(8), by reason of the drilling of the well at such exceptional location, or (2) deems it necessary that the Commission make such determination for the purpose of protecting correlative rights of all parties. Promptly upon such determination, and not later than fifteen (15) days after receipt of the application, the Director shall give the applicant written notice, citing the reason(s) for denial of the application under this rule and the referral to the full Commission for determination.
- h) Applications for exceptional locations resulting from directional drilling shall be considered for administrative approval in accordance with this rule, provided, that no allowable shall be authorized until the Commission has been furnished a bottom hole directional survey for each common source of supply for which an allowable is requested. In all such cases where directional surveys are made available, the distance, of the mid-point perforations in a directional well, from the unit boundary shall be used in calculating the allowable.
- i) 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 section (f), the application shall be approved and a Drilling Permit issued.

RULE B-41 - RULE FOR OPERATION IN HYDROGEN SULFIDE (H₂S) AREAS

Each operator who conducts operations in known areas of Hydrogen Sulfide (H₂S) with minimum concentrations of fifteen (15) ppm under atmospheric conditions or one hundred (100) ppm or more in the gas stream shall provide safeguards to protect the general public from the harmful effects of Hydrogen Sulfide (H₂S). The Director of the Arkansas Oil and Gas Commission shall determine the areas covered by this rule.

Operations shall include drilling, completion, workover, producing, gathering, and storage of hydrocarbon fluids, natural gas and fluids produced in association with Bromine extraction. These operations fall under these guidelines only if they contain gas in the system which has Hydrogen Sulfide (H₂S) as a constituent of the gas.

DEFINITIONS

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

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