RULE CHANGES

FOR NON-REGULATORS

NORTH DAKOTA 2012 RULE CHANGES

EFFECTIVE APRIL 1, 2012

NOTE THE FOLLOWING RULE CHANGES ARE NOT MEANT TO REPLACE THE ACTUAL RULE, BUT ARE PROVIDED HERE ONLY FOR CLARIFICATION PURPOSES, PLEASE SEE COMMISSION ORDER NO. 18123 TO REVIEW ALL CHANGES

NORTH DAKOTA ADMINISTRATIVE CODE
CHAPTER 43-02-03 (OIL & GAS)
CHAPTER 43-02-12 (GEOPHYSICAL EXPLORATION)
GENERAL RULES AND REGULATIONS CHAPTER 43-02-03

43-02-03-05. ENFORCEMENT OF LAWS, RULES, AND REGULATIONS DEALING WITH CONSERVATION OF OIL AND GAS. Language authorizing the director to shut in wells that seriously threaten public safety, health, or the environment was removed from this rule and moved to Section 43-02-03-28.

43-02-03-15. BOND AND TRANSFER OF WELLS. All $20,000 single well bonds have been eliminated and will now have to be replaced with $50,000 single well bonds. Single well bonds continue to be required for commercial disposal wells, although they must also be increased from $20,000 to $50,000. All $50,000 ten-well blanket bonds have been eliminated and will now have to be replaced with $100,000 blanket bonds. The $100,000 bonds were not affected by the rule changes. All wells including existing wells will have to comply with these new bonding requirements. Changes to minimum bonding requirements for treating plants are contained in 43-02-03-51.

43-02-03-16. APPLICATION FOR PERMIT TO DRILL AND RECOMPLETE. This rule was amended to clarify that all survey plats must include the location of the proposed well with reference to true north. When certain grades of casing, like P-110, are exposed to hydrogen sulfide, sulfide stress cracking can occur which weakens the integrity of casing string. Operators should refer to the latest American Petroleum Institute standards on sulfide stress cracking. The Director can take this into consideration on future applications to recomplete and deny requests if it is determined that casing integrity has been or could be compromised.

43-02-03-16.3. RECOVERY OF A RISK PENALTY. This rule was amended to clarify that only the approximate location of the proposed or existing well must be included in an invitation to participate in the drilling of a well, and all future invitations must include the drilling or spacing unit description.

43-02-03-18. DRILLING UNITS - WELL LOCATIONS. Previously the temporary spacing order issued by the Commission would remain in effect for 18 months, at which time a proper spacing hearing would be scheduled by the Commission to review the spacing requirements. The amendment allows the temporary spacing order to remain in effect for up to 3 years before the proper spacing would be required to be heard.

43-02-03-19. SITE CONSTRUCTION. This rule previously contained references to reserve pits, drilling mud, drill cuttings, and reclamation, which have been moved to Sections 43-02-03-19.4, 43-02-03-19.5, and 43-02-03-34.1. This rule now only addresses site construction and has been amended to require the Director's approval before using soil stabilization additives (such as cement kiln dust) and materials (such as mesh or fabric). Surface drainage must also be diverted from entering the site and the site and all associated facilities must be stabilized to prevent erosion. Also within 6 months after completion of a well, the unused portion of the well site must be reclaimed, unless waived by the Director.

43-02-03-19.1. FENCING, SCREENING, AND NETTING OF DRILLING AND RESERVE PITS. This rule has been amended to also apply to drilling pits since they are now addressed under Section 43-02-03-19.4.

43-02-03-19.2 DISPOSAL OF WASTE MATERIAL. The amendment clarifies that it applies to "waste material", not "waste" as it is defined under NDCC Section 38-08-02, and that the waste material recovered from spills and leaks must immediately be disposed of in an authorized facility, although waste material may be remediated on-site if approved by the Director.

43-02-03-19.3. EARTHEN PITS AND OPEN RECEPTACLES. Impermeable earthen pits have been allowed in the past to be used to retain oil, water, or fluids generated in well servicing or plugging operations. The amendment clarifies that the earthen pits must be lined and that earthen pits and open receptacles can be approved by the Director to retain cement or solids generated during well completion operations. If allowed, the operator must submit a diagram showing the location of the pit or receptacle in reference to the wellhead. The amendment requires the earthen pit to be reclaimed and the open receptacle to be removed within 30 days after the end of operations, although the Director can grant an extension. The rule change also clarifies that if an operator is flaring casinghead gas, the flare must be located at least 150 feet from the wellhead and tanks. Any freshwater pits or open receptacles located on the well site must be approved by the Director. They must be lined and can not be located where fill dirt is utilized to level the location. Only chemicals used within municipal drinking water standards will be allowed to be mixed in the water after approval by the Director. Operators should contact the State Water Commission prior to constructing any fresh water pit or open receptacle not under the jurisdiction of the Commission.

43-02-03-19.4. DRILLING PITS. This is a newly created rule. Changes in the reserve pit rule, Section 43-02-03-19.5, will require most drilling rigs to use a mud system that does not circulate fluid into a pit, but rather will use mud tanks. The Director may approve requests for fresh water reserve pits to drill the surface hole. Drilling pits will be used to bury drill cuttings only after the cuttings have been stabilized with a material approved by the Director. The reclamation requirements are the same that currently apply to reserve pits, although the pit must now be reclaimed within 30 days after drilling the well unless extended by the Director. Small lined pits can also be approved by the Director for temporary storage of trench water and rig wash, but must be emptied and reclaimed prior to the rig leaving the site.

43-02-03-19.5. RESERVE PIT FOR DRILLING MUD AND DRILL CUTTINGS FROM SHALLOW WELLS. This is a newly created rule although much of the language previously appeared under Section 43-02-03-19. The use of a reserve pit on most wells in the future will be prohibited since it will be allowed only for wells drilled above the depth of 5000 feet or for wells drilled for disposal in the Dakota Group, although wells using low sodium content water-based mud systems might be approved after notice and hearing. Undrilled permits issued prior to April 1, 2012 that did not prohibit the use of a reserve pit may use a reserve pit if approved by a Commission inspector.

43-02-03-21. CASING, TUBING, AND CEMENTING REQUIREMENTS. Surface casing is required to be set at least 50 feet into the Pierre Formation and cemented back to the cellar (if one was constructed) or to the surface of the ground. This rule was amended to clarify that an operator must immediately notify the Director when cement fails to reach cellar or the ground and that remedial work can not be performed until after receiving approval from the Director. After cementing the surface casing, the casing must be pressure tested to 1500 pounds per square inch, which is also required on any intermediate or production casing string set in the well.

43-02-03-25. DEVIATION TESTS AND DIRECTIONAL SURVEYS. This amendment clarifies that all directional surveys run in any deviated or horizontal well must be in reference to true north.

43-02-03-27.1 HYDRAULIC FRACTURE STIMULATION. This is a newly created rule. Previous rules of the Commission did not outline specific requirements when performing a hydraulic fracture stimulation.

When performing a hydraulic fracture stimulation through a frac string run inside the intermediate casing string, the frac string must be either stung into a liner or run with a packer set at a minimum depth of 100 feet below the top of cement or 100 feet below the top of the Inyan Kara Formation, whichever is deeper. The intermediate casing-frac string annulus must be successfully pressure tested to 1500 psi and pressurized and monitored during frac operations. A pressure relief valve on the treating lines must be set at no more than 85% of the lowest net internal yield pressure and a check valve must be placed in the treating lines. A pressure relief valve on the intermediate casing string must be set at no more than 85% of the lowest internal yield pressure, and a diversion line must be used to divert flow from the intermediate casing in case of frac string failure.

When performing a hydraulic fracture stimulation through an intermediate casing string the maximum treating pressure must be no more than 85% of the American Petroleum Institute rating of the intermediate casing. Casing evaluation tools must be run and a photograph must be taken of the top joint and the wellhead flange and if wall thickness of the intermediate casing is inadequate a frac string must be used. Cement evaluation tools must be run and if the cement is inadequate or below the Mowry Formation top, a frac string must be used. The intermediate casing and wellhead must be pressure tested to a minimum depth of 100 feet below the top of the Tyler Formation. A wellhead and blowout preventer protection system must be utilized during the frac if the pressure rating of the wellhead does not exceed the maximum frac design pressure. A pressure relief valve on the treating lines must be set at no more than 100 pounds per square inch below the test pressure and a check valve must be placed in the treating lines.

All stimulations must utilize a remote operated frac valve between the treating line and the wellhead, a wellhead pressure rating that exceeds the maximum frac design pressure (or a wellhead and blowout preventer protection system must be used), the surface casing valve must remain fully open with a diversion line to a pit or vessel during the frac, and the pressure in the intermediate casing/surface casing annulus must be recorded to verify it did not exeed 350 psi.

Within 60 days after the hydraulic fracture stimulation is performed it must be posted on the FracFocus Chemical Disclosure Registry by either the owner of the well, operator of the well, or service company performing the stimulation.

43-02-03-28. SAFETY REGULATION. This rule was amended to include language moved from Section 43-02-03-05 allowing the Director to shut in a well for up to 40 days to protect public health or safety. The amendment also allows the Director to require remote operated or automatic shut-down equipment to be installed on any well that is likely to cause a serious threat of pollution or injury to the public. In addition the amended rule requires injection equipment to be at least 500 feet from an occupied dwelling unless agreed to in writing by the owner of the dwelling or authorized by order of the Commission.

43-02-03-30.1. LEAK AND SPILL CLEANUP. This is a newly created rule and now includes language moved from Sections 43-02-03-49 and 43-02-03-53 prohibiting any spill or leak to be allowed to flow over, pool, or rest on the surface of the land or soak into the ground. It also requires operators to respond with all necessary resources to contain and clean up spills and allows on-site remediation of spilled fluids if approved by the Director.

43-02-03-31. WELL LOG, COMPLETION, AND WORKOVER REPORTS. It is very important to know the quality of cement behind the casing when fracing a horizontal well. Approximately 95% of the wells drilled today are horizontal wells that will be fraced during the completion of the well, therefore, the rule has been amended to require the operator to run a log to determine the cement quality prior to fracing the well. Most logs are now submitted in electronic form therefore we have eliminated the need to submit a paper copy, but will now require electronic logs to include a Tagged Image File Format in addition to the digital LAS copy already required. The Director will also now be allowed to release completion and production data to health care professionals and emergency responders, even if the well is on confidential status, if deemed necessary to protect the public's health, safety, and welfare.

43-02-03-34.1. RECLAMATION OF SURFACE. This is a newly created rule and now includes language taken from Section 43-02-03-19 with respect to site reclamation. All materials used to stabilize the soil must be remediated so vegetative growth is not inhibited.

43-02-03-49. OIL, PRODUCTION EQUIPMENT, DIKES, AND SEALS. In the past, unusable tanks and production equipment had to be removed from the well site, now unused equipment must also be removed from well site. Language referring to oil leaks and cleanup was removed and placed in Section 43-02-03-30.1.

43-02-03-51. TREATING PLANT. The minimum bond amount for a treating plant has been increased from $25,000 to $50,000. The bond amount will continue to be set by Commission order after the case has been heard at a public meeting.

43-02-03-53. SALTWATER HANDLING FACILITIES. In the past, unusable tanks and injection equipment had to be removed from the well site, now unused equipment must also be removed from well site. Language referring to saltwater leaks and cleanup was removed and placed in Section 43-02-03-30.1. The rule was also amended to clarify that all crude oil recovered from a saltwater handling facility must be reported to the Commission on Form 5 SWD.

43-02-03-54. INVESTIGATIVE POWERS. This rule was becoming very problematic to the Director since it required all written complaints, without regard to priority, to be immediately investigated at a time when activity is at record levels. The amendment will still require the Director to reply to a written complaint within a reasonable time, although the Director will now be allowed to prioritize workload including investigation of complaints received.

43-02-03-55. ABANDONMENT OF WELLS - SUSPENSION OF DRILLING. A gas well shut in for lack of a market is an abandoned well pursuant to NDCC Section 38-08-04 therefore the waiver previously contained within this rule was removed. The rule was also clarified to indicate any water source well not produced for one year, or any stratigraphic test hole not plugged within one year of reaching total depth, would be considered an abandoned well.

43-02-03-88.1. SPECIAL PROCEDURES FOR INCREASED DENSITY WELLS, POOLING, FLARING EXEMPTION, UNDERGROUND INJECTION, COMMINGLING, CONVERTING MINERAL WELLS TO FRESHWATER WELLS, AND CENTRAL TANK BATTERY OR CENTRAL PRODUCTION FACILITIES APPLICATIONS. Applications to drill additional wells on existing spacing units are extremely common and now the Director will be able to enter an order disposing of these cases without hearing live testimony. If an objection is filed in any matter, the hearing officer will continue the case to a later date, keep the record open for additional evidence, or take any other action needed to ensure the applicant and any objections are accorded due process. The rule also now requires letters, sent in by interested parties on cases under this section, be received by the Commission no later than 5pm on the last work day prior to the hearing day.

43-02-03-90.2. OFFICIAL RECORD. The rule now requires letters, sent in by interested parties on any case, be received by the Commission no later than 5pm on the last work day prior to the hearing day.

GEOPHYSICAL EXPLORATION REQUIREMENTS

CHAPTER 43-02-12

43-02-12-06. NOTIFICATION OF WORK PERFORMED. This rule currently requires a seismic completion report to be filed with the Commission within 30 days following the completion of geophysical exploration. Some projects are very large, or may be suspended, and the Director needs to have the ability to keep informed of the project status, therefore, the rule was amended to allow the Director to require progress reports prior to the completion of a project.