

Rule Summary and Fiscal Analysis

Part A - General Questions

Rule Number: 1501:9-1-04

Rule Type: Amendment

Rule Title/Tagline: Spacing of wells.

Agency Name: Department of Natural Resources

Division: Division of Mineral Resources Management-Oil and Gas

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I. Rule Summary

1. **Is this a five year rule review?** Yes
 - A. **What is the rule's five year review date?** 7/19/2019
2. **Is this rule the result of recent legislation?** No
3. **What statute is this rule being promulgated under?** 119.03
4. **What statute(s) grant rule writing authority?** 1509.24, 1509.03, 1509.23.
5. **What statute(s) does the rule implement or amplify?** 1509.02, 1509.23, 1509.24, 1509.03.
6. **What are the reasons for proposing the rule?**

The intent of this rule amendment is to create requirements to ensure drilling units are compact and contiguous. The rule revises the existing acreage requirements, while maintaining current minimum setback distances to drilling units, in order to comply with statutory requirements. The Division believes that the revisions that apply to both vertical and horizontal wells will result in a more efficient conservation of oil and gas reserves and will continue to protect correlative rights.

- 7. Summarize the rule's content, and if this is an amended rule, also summarize the rule's changes.**

The Division proposes to amend the existing well spacing rule by revising the minimum acreage requirements for vertical (conventional) wells and to adopt new provisions relative to the minimum distance requirement from which new horizontal shale (unconventional) wells may be drilled from boundaries of drilling units and other horizontal wells. The standards will be applied statewide.

- 8. Does the rule incorporate material by reference? No**
- 9. If the rule incorporates material by reference and the agency claims the material is exempt pursuant to R.C. 121.71 to 121.76, please explain the basis for the exemption and how an individual can find the referenced material.**

Not Applicable

- 10. If revising or re-filing the rule, please indicate the changes made in the revised or re-filed version of the rule.**

The rule imposes reporting requirements so, RSFA question #16(c) was revised to answer in the affirmative.

II. Fiscal Analysis

- 11. As a result of this proposed rule, please estimate the increase / decrease in revenues or expenditures affecting this agency, or the state generally, in the current biennium or future years. If the proposed rule is likely to have a different fiscal effect in future years, please describe the expected difference and operation.**

This will have no impact on revenues or expenditures.

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The proposed rules are not expected to have a fiscal impact on the agency or the state in the current biennium or future years. The rules should simplify the permitting process by reducing spacing variance requests, ultimately reducing the workload of agency staff members. This may result in a decrease in administrative costs.

- 12. What are the estimated costs of compliance for all persons and/or organizations directly affected by the rule?**

These rules standardize requirements and should result in a decrease in variance requests from operators, ultimately reducing the work necessary to apply for a permit to drill a new oil and gas well. There will be no change to the cost of compliance necessary to obtain a permit.

13. **Does the rule increase local government costs? (If yes, you must complete an RSFA Part B).** No
14. **Does the rule regulate environmental protection? (If yes, you must complete an RSFA Part C).** Yes

III. Common Sense Initiative (CSI) Questions

15. **Was this rule filed with the Common Sense Initiative Office?** Yes
16. **Does this rule have an adverse impact on business?** Yes

A. **Does this rule require a license, permit, or any other prior authorization to engage in or operate a line of business?** No

B. **Does this rule impose a criminal penalty, a civil penalty, or another sanction, or create a cause of action, for failure to comply with its terms?** Yes

1509.04 (B)(2)(a) outlines the Division's authority regarding enforcement. It provides an owner or any person required to submit a report or fee the opportunity to request an extension and requires the Chief to make reasonable attempts to notify the owner or person.

C. **Does this rule require specific expenditures or the report of information as a condition of compliance?** Yes

If adverse communication between one or more horizontal wells occurs, the owner of the horizontal well shall notify the division.

Rule Summary and Fiscal Analysis

Part C - Environmental Rule Questions

Pursuant to Am. Sub. H.B. 106 of the 121st General Assembly, prior to adopting a rule or an amendment to a rule dealing with environmental protection, or containing a component dealing with environmental protection, a state agency shall:

- (1) Consult with organizations that represent political subdivisions, environmental interests, business interests, and other persons affected by the proposed rule or amendment.
- (2) Consider documentation relevant to the need for, the environmental benefits or consequences of, other benefits of, and the technological feasibility of the proposed rule or rule amendment.
- (3) Specifically identify whether the proposed rule or rule amendment is being adopted or amended to enable the state to obtain or maintain approval to administer and enforce a federal environmental law or to participate in a federal environmental program, whether the proposed rule or rule amendment is more stringent than its federal counterpart, and, if the proposed rule or rule amendment is more stringent, the rationale for not incorporating its federal counterpart.
- (4) Include with the proposed rule or rule amendment and rule summary and fiscal analysis required to be filed with the Joint Committee on Agency Rule Review information relevant to the previously listed requirements.

(A) Were organizations that represent political subdivisions, environmental interests, business interests, and other persons affected by the proposed rule or amendment consulted? Yes

Please list each contact.

Ample opportunities were provided for affected persons to offer comment and consultation on the proposed rules. Feedback was received from person representing political subdivision, environmental interests, business interests and other affected individuals.

Technical Advisory Council on Oil & Gas
American Petroleum Institute - Ohio
Ohio Oil & Gas Association
Industry Stakeholders
Interested Party Comment Period
CSI-Ohio Comment Period

(B) Was documentation that is relevant to the need for, the environmental benefits or consequences of, other benefits of, and the technological feasibility of the proposed rule or amendment considered? Yes

Please list the information provided and attach a copy of each piece of documentation to this form. (A SUMMARY OR INDEX MAY BE ATTACHED IN LIEU OF THE ACTUAL DOCUMENTATION.)

The current spacing distances were not changed for vertical wells addressed in this rule; the reduced acreage amounts are commensurate with the distance the well must be set back from the drilling unit boundary and make a drilling unit complete. For the horizontal well spacing rules, the DOGRM evaluated spacing standards based on presentations made by horizontal shale producing operators to the TAC in August 2012 and in November 2013. Examples of micro seismic monitoring of new and existing horizontal wells showed that the effective drainage areas of hydraulically fractured shale wells did not extend as far as the regulatory setback requirement and resulted in hydrocarbon reserves being stranded that otherwise might be recovered at a lesser setback distance.

- (C) Is the proposed rule or rule amendment being adopted or amended to enable the state to obtain or maintain approval to administer and enforce a federal environmental law or to participate in a federal environmental program? No**

Is the proposed rule or rule amendment more stringent than its federal counterpart?
Not Applicable

- (D) If this is a rule amendment that is being adopted under a state statute that establishes standards with which the amendment is to comply, is the proposed rule amendment more stringent than the rule that it is proposing to amend? No**