

REFERENCE TITLE: horizontal hydraulic fracturing; prohibition

State of Arizona
Senate
Fifty-sixth Legislature
First Regular Session
2023

SB 1354

Introduced by
Senators Mendez: Gabaldón, Hernandez, Miranda, Terán; Representative
Salman

AN ACT

AMENDING SECTIONS 27-501, 27-502, 27-503, 27-516 AND 27-527, ARIZONA
REVISED STATUTES; RELATING TO OIL AND GAS PRODUCTION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 27-501, Arizona Revised Statutes, is amended to
3 read:

4 27-501. Definitions

5 In this article, unless the context otherwise requires:

6 ~~(b)~~ 1. "Casinghead gas" means any gas or vapor **THAT IS** indigenous
7 to an oil stratum and produced from such stratum with oil.

8 ~~1.~~ 2. "Certificate of clearance" means a permit **THAT IS** approved
9 and issued or registered by the commission for ~~transportation~~ **TRANSPORTING**
10 or ~~delivery of~~ **DELIVERING** oil, gas or oil and gas products.

11 ~~2.~~ 3. "Certificate of compliance" means a certificate **THAT IS**
12 issued by the commission ~~prior to connection of~~ **BEFORE CONNECTING** an oil
13 or gas well with a pipeline, ~~showing~~ **AND THAT SHOWS** compliance with the
14 conservation laws of this state and conservation rules and orders of the
15 commission.

16 ~~3.~~ 4. "Commission" or "commissioner" means the oil and gas
17 conservation commission.

18 ~~4.~~ 5. "Completed well" means a well that meets any of the
19 following conditions:

20 (a) Has produced or is ready to produce new formation hydrocarbons
21 or gases.

22 (b) Has been declared a dry hole or plugged and abandoned.

23 (c) Has been otherwise readied for operation as in the case of
24 injection and service wells.

25 ~~5.~~ 6. ~~"Developed area" or~~ "Developed unit" means a drainage unit
26 having a completed well **THAT IS** capable of producing oil or gas in paying
27 quantities.

28 ~~6.~~ 7. "Drainage unit" or "drilling unit" means the maximum area in
29 a pool ~~which~~ **THAT** may be drained efficiently by one well to produce the
30 reasonable maximum amount of recoverable oil or gas in the area.

31 ~~7.~~ 8. "Field" means the general area ~~which~~ **THAT** is or appears to
32 be underlaid by not less than one pool, including underground reservoirs
33 containing oil or gas, or both.

34 ~~8.~~ 9. "Fund" means the state general fund.

35 ~~9.~~ 10. "Gas" means natural gas, casinghead gas, all other
36 hydrocarbons not defined as oil, carbon dioxide and helium or other
37 substances of a gaseous nature. ~~Natural gas and casinghead gas are~~
38 ~~further defined as follows:~~

39 11. **"HORIZONTAL HYDRAULIC FRACTURING" MEANS THE TECHNIQUE OF**
40 **EXPANDING OR CREATING ROCK FRACTURES LEADING FROM SUBSTANTIALLY HORIZONTAL**
41 **WELLBORES BY INJECTING SUBSTANCES, INCLUDING WATER, FLUIDS, CHEMICALS AND**
42 **PROPPANTS, UNDER PRESSURE, INTO OR UNDER ROCK FORMATIONS, FOR THE PURPOSES**
43 **OF EXPLORING, DRILLING, COMPLETING OR PRODUCING OIL OR NATURAL GAS.**

1 ~~10.~~ 12. "Illegal oil" ~~and~~ OR "illegal gas" means oil or gas THAT
2 IS produced within ~~the~~ THIS state from any well during any time in which
3 the well has produced more than the amount allowed by law or any rule or
4 order of the commission, ~~or~~ the production of which causes waste OR OIL OR
5 GAS THAT IS PRODUCED WITH HORIZONTAL HYDRAULIC FRACTURING PROCESS.

6 ~~11.~~ 13. "Illegal product" means any product THAT IS derived, in
7 whole or in part, from illegal oil or ILLEGAL gas.

8 ~~(a)~~ 14. "Natural gas" means any combustible gas or vapor THAT IS
9 composed chiefly of hydrocarbons occurring in gaseous or vapor phase at
10 initial reservoir conditions.

11 ~~12.~~ 15. "Net drainage" means drainage THAT IS not equalized by
12 counterdrainage.

13 ~~13.~~ 16. "Oil" means crude petroleum oil and all other
14 hydrocarbons, regardless of gravity, ~~which~~ THAT are produced at a well in
15 liquid form by ordinary production methods and ~~which~~ THAT are not the
16 result of condensation of gas.

17 ~~14.~~ 17. "Owner" means the person having the right to drill into,
18 produce and appropriate production of oil or gas, or both, from a pool.

19 ~~15.~~ 18. "Person" includes a corporation, association, partnership,
20 receiver, trustee, guardian, executor, administrator, fiduciary or
21 representative or any group acting as a unit and includes any department,
22 agency or instrumentality of ~~the~~ THIS state or any of its governmental
23 subdivisions.

24 ~~16.~~ 19. "Pool" means an underground reservoir containing a common
25 accumulation of oil or gas, or both, and includes each zone of a general
26 structure completely separated from any other zone in the structure.

27 ~~17.~~ 20. "Producer" means the owner of a well THAT IS capable of
28 producing oil or gas.

29 ~~18.~~ 21. "Product" means oil, gas or any product, by-product,
30 mixture or blend of oil or gas.

31 ~~19.~~ 22. "Royalty owner" means a person ~~who~~ THAT possesses an
32 interest in the production but ~~who~~ THAT is not an owner.

33 ~~20.~~ 23. "Waste" includes:

34 (a) Physical waste, as that term is generally understood in the oil
35 and gas industry.

36 (b) The inefficient, excessive or improper use of or the
37 unnecessary dissipation of reservoir energy.

38 (c) The locating, spacing, drilling, equipping, operating or
39 producing of any oil or gas well or wells in a manner ~~which~~ THAT causes or
40 tends to cause reduction in the quantity of oil or gas ultimately
41 recoverable from a pool under prudent and proper operations or ~~which~~ THAT
42 causes or tends to cause unnecessary or excessive surface loss or
43 destruction of oil or gas.

44 (d) The inefficient storing of oil or gas.

1 (e) The production of oil or gas in excess of transportation or
2 marketing facilities.

3 (f) The production of oil or gas when it is unprofitable to dispose
4 of such production.

5 (g) THE INJECTION OF FRACTURING FLUIDS CONSISTING OF WATER
6 CHEMICALS, PROPPANTS OR ANY OTHER ADDITIVES USED FOR HORIZONTAL HYDRAULIC
7 FRACTURING.

8 (h) THE PRODUCTION OF BRINES, FLOWBACK, PRODUCED WATER, RESIDUAL
9 FLUIDS OR DRILL CUTTINGS THAT RETURN TO THE SURFACE IN THE HORIZONTAL
10 DRILLING AND HYDRAULIC FRACTURING PROCESS.

11 ~~21.~~ 24. "Well" includes any hole drilled or spudded in for the
12 purpose, with the intention or under the representation of penetrating oil
13 or gas bearing strata or of penetrating any strata in search of
14 stratigraphic data pertinent to the location of oil or gas bearing strata,
15 whether or not in either case oil or gas is actually discovered, any hole
16 used in connection with the underground storage of hydrocarbon substances,
17 whether liquid or gaseous, any hole used in connection with a process to
18 inject any substance for THE purposes of disposal or to increase recovery,
19 any hole used for the purpose of secondary or tertiary recovery and any
20 hole used for the purpose of pressure maintenance. The commission may, as
21 it considers to be in the best interests of ~~the~~ THIS state, determine that
22 any hole drilled or spudded in shall be included within this definition to
23 the extent necessary for the administration and enforcement of the rules
24 required by section 27-516. The determination of the commission ~~shall be~~
25 IS final in any circumstance involving the question of purpose, intent or
26 representation, except that the determination ~~shall be~~ IS subject to
27 appeal as provided by section 27-520.

28 Sec. 2. Section 27-502, Arizona Revised Statutes, is amended to
29 read:

30 27-502. Declaration of policy

31 A. It is the public policy of ~~the~~ THIS state to:

32 1. Conserve the natural resources of oil and gas and OIL AND GAS
33 products ~~thereof~~.

34 2. Prevent waste of oil and gas resources.

35 3. Provide for protection and adjustment of correlative rights of
36 owners of land ~~wherein~~ IN WHICH the natural resources lie and of owners
37 and producers of oil and gas resources and OIL AND GAS products, and of
38 others interested therein.

39 4. Encourage development of natural resources of oil and gas and
40 ~~their~~ OIL AND GAS products.

41 5. Encourage continuous and economic supply thereof and demand
42 therefor.

43 6. Safeguard the health, property and public welfare of citizens of
44 ~~the~~ THIS state and other interested persons.

1 7. Promote all purposes indicated by ~~the provisions of~~ this
2 article.

3 8. PREVENT THE CONTAMINATION OF GROUNDWATER DURING THE PRODUCTION
4 OR DISTRIBUTION OF OIL AND GAS PRODUCTS.

5 B. This article shall be administered by the oil and gas
6 conservation commission.

7 C. The legislature finds and declares that oil and gas in
8 commercial quantities have now been discovered and are being produced
9 within this state.

10 Sec. 3. Section 27-503, Arizona Revised Statutes, is amended to
11 read:

12 27-503. Waste of oil or gas prohibited; powers of
13 commissioner to prevent waste

14 A. Waste of oil or gas is unlawful and is prohibited.

15 B. The commissioner shall make inquiries ~~he~~ THE COMMISSIONER deems
16 proper to determine whether waste exists or is imminent. In the exercise
17 of such power, the commissioner may:

18 1. Collect data.

19 2. Make investigations and inspections.

20 3. Examine property, leases, papers, books and records, including
21 drilling records and logs.

22 4. Examine, check, test and gauge oil and gas wells, tanks,
23 refineries and modes of transportation.

24 5. Hold hearings.

25 6. Require keeping of records and making of reports.

26 7. Take action ~~he~~ THE COMMISSIONER deems necessary to enforce and
27 effectuate ~~the provisions of~~ this article.

28 C. The commissioner, ~~may~~ in order to prevent waste and avoid
29 drilling unnecessary wells, ~~permit~~ MAY ALLOW the cycling of gas in any
30 pool or portion thereof or the introduction of gas or other substance into
31 an oil or gas reservoir for the purpose of repressuring the reservoir,
32 maintaining pressure or carrying on secondary recovery operations of any
33 type, EXCEPT THAT THE COMMISSIONER MAY NOT ALLOW HORIZONTAL HYDRAULIC
34 FRACTURING. The commissioner shall ~~permit~~ ALLOW the pooling or
35 integration of separate tracts when reasonably necessary in connection
36 with the operations.

37 Sec. 4. Section 27-516, Arizona Revised Statutes, is amended to
38 read:

39 27-516. Rules

40 A. The commission shall make rules and amend them as deemed
41 necessary for the proper administration and enforcement of this article,
42 including the following rules and orders:

43 1. Requiring the drilling, casing and plugging of wells in a manner
44 to prevent:

45 (a) Escape of oil and gas from one stratum to another.

- 1 (b) Intrusion of water into an oil or gas stratum from a separate
2 stratum.
- 3 (c) Pollution of fresh water supplies by oil, gas, ~~or~~ salt water OR
4 CHEMICALS USED TO PRODUCE OIL OR GAS.
- 5 (d) Waste.
- 6 2. Requiring reports showing the location of oil and gas wells and
7 requiring filing of logs and drilling records within thirty days after
8 drilling is completed for a well drilled for oil or gas.
- 9 3. Requiring a reasonable bond with good and sufficient surety
10 conditioned on the performance of the duties prescribed in paragraphs 1
11 and 2 of this subsection, including the obligation to plug each dry or
12 abandoned well.
- 13 4. Preventing drowning by water of any stratum or part capable of
14 producing oil or gas in paying quantities and preventing the premature and
15 irregular encroachment of water which THAT reduces or tends to reduce the
16 total ultimate recovery of oil or gas from any pool.
- 17 5. Requiring the operation of wells with efficient gas-oil ratio
18 and fixing the limits of such ratios.
- 19 6. Preventing blowouts, caving and seepage.
- 20 7. Preventing creation of unnecessary fire hazards.
- 21 8. Requiring identification of ownership of oil and gas wells,
22 producing leases, refineries, tanks, plants, structures and storage and
23 transportation equipment and facilities.
- 24 9. Regulating shooting, perforating and chemical treatment of
25 wells.
- 26 10. Regulating gas cycling operations.
- 27 11. Regulating secondary recovery methods, including introduction
28 of gas, air, water or any other substances into producing formations.
- 29 12. Regulating spacing of wells and establishing drilling units.
- 30 13. Limiting, allocating and apportioning production of oil and gas
31 from a pool or field for prevention of waste, and allocating production
32 between tracts of land under separate ownership in a pool on a fair and
33 equitable basis so that each tract will be permitted to produce not more
34 than its just and equitable share from such pool.
- 35 14. Preventing, so far as practicable, reasonably avoidable
36 drainage from each developed unit, not equalized by counterdrainage.
- 37 15. Requiring a producer of oil or gas to submit for each oil or
38 gas well operated, on a form prescribed by the commission, a monthly
39 report of actual production from each oil or gas well. ~~Such~~ THE report
40 shall be submitted on or before the twenty-fifth day of the next
41 succeeding month.
- 42 16. Requiring persons making settlement with the owner of oil or
43 gas interests to render statements to the owner showing the quantity and
44 gravity purchased and the price per barrel of oil or the price per one
45 thousand cubic feet of gas.

1 17. Requiring, either generally or in a particular area, a
2 certificate of clearance for transportation or delivery of oil, gas or any
3 product.

4 18. Requiring the applicant for a drilling permit, if the surface
5 of the land is owned by another not in a contractual relationship with the
6 applicant, to post bond in a reasonable sum with good and sufficient
7 surety conditioned on payment of just compensation to the landowner for
8 actual damages to the surface of or improvements on the land caused by the
9 drilling permittee's operations.

10 19. Requiring all forms and reports requested by the commission to
11 be submitted to the commission on or before the twentieth day of the next
12 succeeding month for monthly reports or within twenty days ~~following the~~
13 ~~completion of~~ AFTER COMPLETING the action requiring the report, except as
14 otherwise provided by the commission.

15 20. Requiring the permitting of all wells and the approval of all
16 equipment and methods:

17 (a) To create or use existing storage space for the underground
18 storage of hydrocarbon substances, whether liquid or gaseous.

19 (b) Used for the injection of any substance into geological strata
20 for the purpose of pressure maintenance or for the purpose of increasing
21 ultimate recovery.

22 (c) Used for the purpose of secondary and tertiary recovery.

23 (d) Used for the disposal of any substance.

24 B. No rule or order, or change, renewal or extension, except as
25 otherwise provided by this article, shall, in the absence of an emergency,
26 be made by the commission under ~~the provisions of~~ this article except
27 after a public hearing of which not less than ten days' notice has been
28 given. The public hearing shall be held at ~~such~~ A time and place as ~~may~~
29 ~~be~~ prescribed by the commission, and any interested person ~~shall be~~ IS
30 entitled to be heard. Notice shall be given by personal service, by
31 publication or by United States mail addressed, postage prepaid, to the
32 last known mailing address of the person or persons affected. The date of
33 service shall be the date on which service was made in the case of
34 personal service, the date of first publication in the case of notice by
35 publication and the date of mailing in the case of notice by mailing. The
36 notice shall issue in the name of ~~the~~ THIS state, shall be signed by a
37 member of the commission or its deputy, shall specify the style and number
38 of the proceeding and the time and place of the hearing and shall briefly
39 state the purpose of the proceeding. If the commission gives notice by
40 personal service, such service may be made by an officer authorized to
41 serve process or by the commission in the same manner as is provided by
42 law for the service of process in civil actions in the courts of this
43 state. Proof of service by the commission shall be by the affidavit of
44 the commission or its authorized representative making personal service.
45 If service is made by the sheriff, the proof of service shall be as

1 required by law for service of process in civil actions. If the matter to
 2 be heard concerns the adoption, amendment or repeal of a rule of general
 3 applicability, notice shall be by publication.

4 C. If an emergency is found by the commission to exist, which in
 5 its judgment requires making, changing, renewing or extending a rule or
 6 order without first having a hearing, the emergency rule or order shall
 7 have the same validity as if a hearing had been held after due notice.
 8 The emergency rule or order shall remain in force for not ~~to exceed~~ MORE
 9 THAN thirty days ~~from~~ AFTER its effective date but shall expire when a
 10 rule or order with respect to the subject matter of the emergency rule or
 11 order becomes effective after due notice and hearing.

12 Sec. 5. Section 27-527, Arizona Revised Statutes, is amended to
 13 read:

14 27-527. Violations; classification

15 A. Any person who violates any provision of this article, or any
 16 rule, regulation or order of the commission, is subject to a civil penalty
 17 of not more than ~~one thousand dollars~~ \$1,000 for each violation and for
 18 each day the violation continues, EXCEPT THAT ANY PERSON WHO CAUSES
 19 HORIZONTAL HYDRAULIC FRACTURING TO OCCUR IN THIS STATE IS SUBJECT TO A
 20 CIVIL PENALTY OF AT LEAST \$10,000 FOR EACH DAY OF OPERATIONS, INCLUDING
 21 EXPLORATIONS.

22 B. Any person who, with the intent to evade this article, or any
 23 rule, regulation or order of the commission, knowingly makes or causes to
 24 be made a false entry in any application, report, record, account or
 25 memorandum required by this article or by any such rule, regulation or
 26 order, or who knowingly omits or causes to be omitted from any
 27 application, report, record, account or memorandum, full, true and correct
 28 entries as required by this article, or by any such rule, regulation or
 29 order, or who knowingly removes from this state, or destroys, mutilates,
 30 alters or falsifies any such application, record, account or memorandum or
 31 knowingly makes any false statement to the commission or any member,
 32 officer, or employee of the commission concerning any matter within the
 33 jurisdiction of the commission is guilty of a class 2 misdemeanor.

34 C. The penalties provided in this section ~~shall be~~ ARE recoverable
 35 by AN action filed by the attorney general, in the name and on behalf of
 36 ~~the~~ THIS state, in the superior court ~~of~~ IN the county in which the
 37 defendant resides, or in which any defendant resides if there ~~are~~ IS more
 38 than one defendant, or in the superior court ~~of~~ IN any county in which the
 39 violation occurred. The payment of ~~any penalty shall not operate to~~
 40 ~~legalize so that it is no longer contraband~~ A PENALTY DOES NOT LEGALIZE
 41 any oil, gas or product involved in the violation for which the penalty is
 42 imposed, and ~~shall~~ DOES not relieve a person on whom the penalty is
 43 imposed from liability to any other person for damages arising out of the
 44 violation.