

**Meeting Minutes of the Funding Levels and Potential Funding Sources  
Study Group of the  
North Carolina Mining and Energy Commission  
December 18, 2012**

**1. Preliminary Matters**

Director Lewis-Raymond called the meeting to order at 3:00 pm and welcomed all study group members and others attending. She read the ethics statement and asked Study Group members whether or not they had a conflict of interest with respect to any action items on the agenda.

Mr. Womack reviewed the Study Group meeting procedure and mission. He also explained the Director's authority and discretion related to Study Group functions.

The following personnel were in attendance for all or part of the meeting:

**2. Study Group Members**

Ms. Jane Lewis-Raymond (Director)  
Mr. Jim Womack  
Mr. Ward Lenz (Substituting for Jonathan Williams)  
Dr. Vikam Rao  
Ms. Johanna Reese  
Ms. Erin Wynia  
Ms. Judith B. Corley-Lay

**3. DENR Staff Members**

Mell Nevils  
W.E. "Toby" Vinson

**4. Others in Attendance**

Refer to the attached meeting sign in sheets for additional attendees.

**5. Election of Vice Director of the Study Group**

Director Lewis-Raymond mentioned that she would appoint a Vice Director as needed

**6. Study Group Responsibilities**

Director Lewis-Raymond discussed the Study Group's responsibilities as required under Session Law 2012-143.

## **7. Review of Funding Section of the Shale Gas Report (Trina Ozer)**

Ms. Ozer stated that chief funding-related concerns involved the potential impact costs from oil and gas operations and the sources of revenue to cover those costs. Examples of these costs to the State involve permit review, site inspections, and staff response to phone calls and other inquiries. The States of Pennsylvania and Arkansas were compared and discussed as frameworks for North Carolina, with the latter probably being more applicable. Pennsylvania has approximately 200 personnel working to administer that state's oil and gas program. Conversely, Arkansas has 58 personnel, seven of whom are full-time inspectors, 39 who serve as either commissioners or permit reviewers, and 12 who serve in other supporting roles. See attached report.

## **8. Discussion and Brainstorming**

- A. The Study Group discussed the cost of "baseline" oil and gas permitting and compliance program needs while also considering future costs as oil and gas production increase. The following should be considered:
  - a. Initial staffing needs and associated costs would involve hiring specialists such as legal counsel, geologists, permitting specialists, a fiscal officer (for fiscal note development), GIS analysts, and IT support.
  - b. The possibility of staffing changes over time was also mentioned. For instance, staff positions will not only be required in Raleigh, but may also be needed within selected regional offices, based on the geographic distribution of oil and gas operations (i.e. Deep River and Dan River Triassic Basins, among others).
  
- B. The Study Group also addressed other costs associated with oil and gas development which have already been noted in other relevant states:
  - a. Areas with established oil and gas operations have experienced surface contaminant spills which may require actions by the local governments.
  - b. The need for expanded jail capacity.
  - c. The impact to local road maintenance.
  - d. Socioeconomic impacts need to be considered including the dislocation of low-income families due to increasing rental rates and property taxes. This dislocation in turn results in lower school populations.
  - e. Local economies may benefit from increasing business activity, increasing median income of residents, and increasing tax revenue to local communities.

- f. The Study Group's discussion was extensive regarding costs due to road impacts. Although the North Carolina Department of Transportation maintains a robust network of highways throughout known oil and gas areas in the Triassic Basin, concerns were raised about the sustainability of smaller local roads and bridges.
- g. Other fiscal impacts were discussed including environmental impacts and land reclamation.

C. The Study Group considered various methods of cost-offset or reimbursement related to oil and gas impacts. The following should be considered:

- a. The use of bonding was discussed as a means to ensure proper well closure (currently a small bond is required by statute), as well as site reclamation.
- b. Bonding to protect landowners whose mineral rights have been severed was also considered.
- c. A severance tax could apply to a given amount of product produced by an oil and gas operator. For instance, North Carolina could levee a set tax rate per cubic feet of gas produced. The severance tax should be tied to the market value of the product, so as not to discourage industry from continuing production during periods of lower market values.
- d. Permit fees could provide revenue to cover the cost of permit receipt and review. However, this income would not be enough to sustain the overall administration of an oil and gas program, including inspections, technical assistance, public information, and other tasks.
- e. Impact fees could be applied as an annual assessment or could be based on the number of wells an operator is using. See attached handout on the Pennsylvania Impact Fee.
- f. Other taxes and fees discussed were well abandonment fees, environmental conservation taxes, and property taxes.

D. The Study Group also considered how existing infrastructure might serve to buffer oil and gas impact costs:

- a. Well maintained major highways, such as Highways 1, 421, and 42 already traverse areas of recoverable product within the Deep River Basin.
- b. Major rail lines are within close proximity of expected natural gas development sites, along with large areas of privately-owned undeveloped property that could be rented for operational staging areas.

- c. The Deep River is a nearby water source which could be accessed during the production process.
- d. The convenient location of water supplies, staging areas, and transportation routes would most likely limit large-hauling vehicular traffic and help to reduce impact costs.
- e. Traffic-based and water use impacts could be further reduced by the recycling of flowback water at the production site.

Although the Study Group discussed impacts associated with gathering lines, members also noted that no other state provides an adequate example for North Carolina to follow. Some states regulate the placement of gathering lines on private lands, while others simply allow landowners and industry to negotiate their own agreements.

#### **9. Topics for next meeting**

Discussion topics for the next meeting are as follows:

- A. Ms. Lewis-Raymond will provide an overview of Pennsylvania's cost and fee structure.
- B. Mr. Womack will provide an analysis of costs associated with emergency management and law enforcement.
- C. Ms. Ozer will provide a summary of current fees imposed by North Carolina.
- D. Mr. Nevils will provide information related to the use of bonding for oil and gas operations.
- E. All Study Group members will consider new ideas, including suggestions for legislative action, to develop funding resources.

Mr. Womack also expressed a desire to have a Deep River Basin field trip lead by Dr. Ray Covington and a representative from the North Carolina Department of Transportation.

**The Study Group adjourned at about 4:40 pm.**

**DEMLR Staff Contact for this Study Group: Francis "Mell" Nevils, Jr., Chief, Land Quality Section**