

**MEETING OF THE COMPULSORY POOLING STUDY GROUP
NORTH CAROLINA MINING AND ENERGY COMMISSION
May 17, 2013
MCSWAIN AGRICULTURAL CENTER, 2420 TRAMWAY ROAD
SANFORD, NC**

1. Preliminary Matters

Study Group Chairman Ray Covington called the meeting of the Compulsory Pooling Study Group of the Mining and Energy Commission (MEC) to order at 9:00 am, approved the minutes from the April 26, 2013 meeting, and read the ethics statement into the record. Panel members made up of the MEC Commissioners and the Resource Group members introduced themselves. The following persons were in attendance for all or part of the meeting:

MEC Study Group Members

Dr. Ray Covington
Mr. Charles E. Holbrook
Mr. James Womack

Study Group Resource Members

Mr. Theodore Feitshans, Department of Agriculture and Resource Economics, NCSU
Mr. Bryan Heckle, N.C. Department of Insurance
Mr. John G. Humphrey, the Humphrey Law Firm
Mr. Matt Kemnitz, N.C. State Energy Office
Mr. Don Kavasckitz, Lee County Strategic Services`
Mr. Jonathan Lanier, N.C. Department of Agriculture and Consumer Services
Mr. Grady McCallie, N.C. Conservation Network
Mr. James Robinson, Rural Advancement Foundation International (RAFI)
Mr. Spencer Scarboro, State Employees' Credit Union
Ms. Lynne Weaver, N.C. Attorney General's Office, Consumer Protection Division

DENR Staff Members

Ms. Layla Cummings
Ms. Trina Ozer

Others In Attendance

See attached sign-in sheets.

2. Group Recommendations on When to Compel Pooling (Attached handout and chart)

Study Group Chairman Covington began a discussion on when to compel pooling by distinguishing between pooling and unitization. The terms are sometimes used interchangeably and it will be within the discretion of Administration of Oil and Gas Committee to determine how to define unitization. MEC Chairman Womack suggested the Study Group define the terms pooling and unitization as they will be used in statute or regulations going forward.

The Commissioners and members of the Resource Group had a panel discussion on what level of voluntary agreement should be required in a unit as a prerequisite to making an application for pooling. Ms. Layla Cummings presented a chart summarizing voluntary pooling requirements in different states. It was recommended where the unit is 100% leased, a majority of those pooled should have voluntary agreement. MEC Chairman Womack left the meeting and there was no vote on the recommendation due to lack of a quorum. There was also consensus among panel members that having a majority of voluntary agreement, with a waiver process for small landowners who wish to join a pool, would be preferable to no minimum requirement for voluntary agreement.

3. Group Recommendations on Indemnification (Attached handout)

Mr. Ted Feitshans of N.C. State University presented recommendations on indemnification under a pooling order. The recommendations distinguished between unleased landowners, producing companies, and leased owners. The recommendations can be viewed in the attached handout. The panel made further recommendations and another draft will be considered at the next meeting.

Ms. Lynne Weaver of the Attorney General's Office suggested the Study Group consider compensation for landowners for damage to property as a separate issue.

4. Group Recommendations on Notice and Reporting Requirements (Attached handouts)

Mr. John Humphrey, a private attorney, presented several recommendations that can be viewed in the attached handouts concerning notice of subsurface entry, reporting of production, and the right to audit. Mr. Spencer Scarboro of the State Employees' Credit Union noted that any notice and reporting requirements should also be sent to the lienholder.

5. Pooling of Special Lands (presentation attached)

Ms. Trina Ozer of DENR gave a presentation outlining special lands that may be subject to pooling in various sub-basins with the potential for shale gas. All maps presented can be found in the DENR Shale Gas Report available on the website. Panel members suggested that the Study Group inquire into the terms of local conservation easements. There also was consensus among the panel that a potential recommendation would be to prohibit the pooling of public lands.

6. Public Questions and Comments

Ms. Therese Vick announced an event called "Look Up Your Mineral Rights Workshop" and passed out flyers for the event which will assist Cumnock Community residents in determining if they own both the surface and mineral rights to their property.

An audience member asked whether homeowners' insurance would cover damages related to oil and gas development. The answer was that it likely would not, but that is one purpose of the recommended indemnification provisions. A follow-up question was asked concerning whether there could be a public referendum when county lands are pooled. The answer was that it would depend on the local ordinances governing the disposition of county owned land.

The meeting was adjourned at 1:15 pm.