

**Meeting Minutes of the Funding Levels and Potential Funding Sources
Study Group of the
North Carolina Mining and Energy Commission
April 22, 2013**

The North Carolina Mining and Energy Commission – Funding Levels and Potential Funding Sources Study Group - met in regular session on Monday, April 22, 2013 in the Conference Room (504Q) of the Archdale Building on the fifth floor. Director Jane Lewis-Raymond called the meeting to order at 1:07 p.m. via teleconference. She welcomed all study group members and others attending. Further, she read the ethics statement and asked Study Group Members whether or not they had conflicts of interest with respect to any action items on the agenda. No conflicts were noted.

Study Group Members Present

Dr. Vikram Rao
Jim Womack, present at 1:50 pm
George Howard, via teleconference
Johanna Reese, NC County Commissioners Rep.
Erin Wynia, NCLM Rep.
Ward Lenz, Energy Commission Rep.

DENR Staff Members Present

Toby Vinson
Katherine Marciniak
Debra Godwin
Rosalind Harris
Walt Haven
Ryan Channell

Other in Attendance

See attached Sign-in Sheet

Introductions

Those in attendance introduced themselves to others in the group.

Items of Business

1. Approval of Minutes of April 1, 2013

Dr. Rao made a motion, seconded by Ms. Wynia, to approve the minutes as presented.

2. Review of Proposed Draft Outline for Study Report (see attached document)

Director Lewis-Raymond discussed with the group the latest revisions to the report draft outline as follows: (1) The costs associated with the State permitting and compliance program with regard to staff costs, operating funds, equipment costs, and field equipment; and (2) Types of allowed bonds.

Mr. Walt Haven explained the personal property taxation procedures for Rockingham, Stokes, Chatham and Lee Counties; what property is considered personal; and how taxes are collected. The group discussed how general property taxes were distributed within municipalities, and that they are generally placed in the General Fund for operating costs.

During the discussion of how property tax rates may affect operators, Dr. Rao stated that operators may choose to set up an operating depot in a county with a lower tax rate. It was the general consensus of the group that an operator would probably not move equipment into a county with lower tax rates for the January 1 tax assessment.

Mr. Haven also discussed the current and expected cost impacts to the Energy Program for Oil and Gas operations and asked for questions (see attached documents).

3. Surface Owner Protection Bonding (see attached presentation)

Mr. Walt Haven provided a presentation to the group on the surface land owner bonding policies in Colorado, North Dakota, Oklahoma, and Wyoming as well as proposed efforts in New Mexico.

Further, Mr. Haven discussed the "Bureau of Land Management Policy". He stated that this policy was enforced on federally owned land. There may be instances where the Federal Government still owns the mineral rights and the property owner owns the surface land. He advised that this type of bonding would cover actual damages to the property.

Ms. Reese questioned if the bond should be a set flat amount or per well or acre. Dr. Rao stated that he would prefer that it be bonded per acre and well.

Dr. Rao stated that having set bonding amounts could assist the State if the operator decided to leave.

Mr. Toby Vinson addressed the bonding strategies for DEMLR's Mining Program and stated that bonding is required primarily for reclamation of the "disturbed areas" and not necessarily for the entirety of the permitted area.

Dr. Rao suggested the group look into if there are any mechanisms in North Carolina to minimize the litigation costs from land owners, a "special mast" within small claims court.

Director Jane Lewis-Raymond recommended an additional group meeting to discuss the types of bonds allowed due to time constraints.

4. NC Impact Fee Structure (see attached document)

Ms. Marciniak explained to the group the different dynamics of an impact fee structure for North Carolina.

Mr. Jim Womack stated that impact fees would solely be used to cover degradation to the local governments. Further, he stated that SB76 proposes a one-for-all severance tax to cover state costs. He felt it was the consensus to have an activity based impact fee, which would go to the areas being degraded.

Ms. Lewis-Raymond stated that it would probably be best to have the severance tax go to cover the costs to the State. There are other questions such as at what level the impact fees are levied, who or which agencies will manage the impact fees, where the fees are to be distributed, and how to distribute the fees still remain.

Dr. Rao stated that the impact fee should be based on the activity in a community, not on the production, and that the group needs to determine a proxy for activity, i.e. truck numbers, numbers of employees in the State, value of the equipment, the well pad or depth of wells.

Mr. Ward Lenz stated that currently local governments are not allowed to implement impact fees and that a statutory change would need to be passed if the group were to recommend that the local governments be able to assess an impact fee.

Ms. Reese stated that a State severance fee would cover statewide costs, including DENR costs.

Dr. Rao agreed to work independently on researching a way to develop a proxy for activity to assess an impact fee. Mr. Womack agreed to assist Dr. Rao.

The group discussed having a state managed fund that the local governments would apply to for funds needed to abate an impact.

5. Further Review of Proposed Draft Outline for Study Report

Mr. Womack summarized that the study group rules will be incorporated into other study groups and any statutory changes/recommendations may vary from committee to committee, depending on the scope of the issue at hand.

6. General Discussion

Ms. Lewis-Raymond stated that the report will be presented to the full Commission on June 28.

There being no further business, the meeting was adjourned.

Respectfully submitted,

Walt Haven, Energy Program Supervisor
DEMLR Staff