

**Meeting Minutes of the Funding Levels and Potential Funding Sources
Study Group of the
North Carolina Mining and Energy Commission
May 23, 2013**

The Funding Levels and Potential Funding Sources Study Group of the North Carolina Mining and Energy Commission met in regular session on Monday, May 23, 2013 in Conference Room 504-Q of the Archdale Building. Director Jane Lewis-Raymond called the meeting to order at 1:03 pm via teleconference. She welcomed all Study Group members and others attending. She also read the ethics statement and asked Study Group Members whether or not they had conflicts of interest with respect to action items on the agenda. No conflicts were noted.

Study Group Members Present

Jane Lewis-Raymond (via telephone), Study Group Director
Dr. Vikram Rao
George Howard
Johanna Reese, NC Association County Commissioners
Ward Lenz, NC Department of Commerce

DENR Staff Members Present

Katherine Marciniak
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 22, 2013
Dr. Rao made a motion, seconded by Mr. Howard, to approve the minutes as presented. The Study Group voted and approved the minutes.
2. Review of the Draft Outline for the Study Group Report (attached)
Director Lewis-Raymond reviewed the latest revisions to the report draft outline as follows: (1) The impacts associated with the State permitting and compliance program with regard to staff costs, operating funds, equipment costs, and field equipment; and (2) bonds.
3. Dr. Rao presented his "Notes for Impact Fee Assessment" (attached)
During the discussion of impact fees it was discussed whether the impact fee should be based on the planned horizontal length of a given oil or gas well, or if the fee should be based on the number of well construction and completion stages being permitted. The Study Group also discussed providing industry incentives to reduce the amount of the impact fee. Dr. Rao mentioned one example where an operator might use "quick lay" lines to pipe water to the site, as opposed to transporting water using trucks. The Study Group acknowledged that a lower impact fee could be assessed if water were to be piped in on lines that would be later recovered and removed. Additionally, the reuse of water by an operator might also be considered as an incentive to lower an impact fee. Chair Lewis-Raymond stated that more discussion was needed regarding the collection, distribution, and use of fees pertaining, based on expected local needs (i.e. road maintenance, local services, etc.).

4. Bonding Strategies (attached)

Mr. Haven provided a handout on DEMLR's Mining Program's bonding types and bonding implementation. Based on the handout and Mr. Haven's presentation, the Group recommended that the following bonding types should be used for oil and gas operations: Assignment to Savings Account, Surety Bonds, Bank Guaranty, and Cash Deposits.

Mr. Ryan Channel presented a handout (attached) regarding geophysical exploration bonding. His presentation and the resulting Group discussion focused on the different rules, forms, fees, and bonding strategies from different states. The Group recommended a bond amount of \$50,000 for geophysical operations.

5. Review of Draft Bonding Report (attached)

Ms. Katherine Marciniak presented a draft of the Bonding chapter (attached) for the Study Group report. The group approved her draft, which included text and detailed charts showing state by state comparisons on bonds, bonded activities, advantages, and disadvantages of bond types.

6. Further Review of the Draft Outline for the Study Group Report

Ms. Lewis-Raymond stated that the Group's report would be presented to the full Commission on June 28. Ms. Marciniak asked that the Group make recommendations regarding surface owner protection bonding. Mr. Howard asked if the issues could be addressed without setting a specific bonding amount. The Study Group discussed this matter and recommended that surface owner protection bonding should be required as part of an oil or gas lease between an operator, land owner, and mineral rights owner. As a result, the Group saw no need to establish a monetary amount for surface owner protection bonding. Ms. Marciniak, Mr. Channel, and Mr. Haven agreed that staff would complete the "Bonding" chapter of the report and would also write the chapter addressing anticipated program costs to DEMLR's Energy Program. Ms. Johanna Reese volunteered to draft the chapter dealing with the costs to local governments. Finally, Ms. Lewis-Raymond agreed to contact and coordinate efforts with other study groups as needed.

The Group recommended that NC Department of Transportation (DOT) draft the portion of the Study Group report that would address potential impacts to roads and bridges. The Group is planning for DOT to present their draft of this chapter at the next meeting on June 17th. The Group also recommended the following edit to their report outline: remove section (I)(c)(iii), "Reclamation of abandon(ed) sites and wells", which is already being addressed in the "Bonding" chapter of the report.

There being no further business, the meeting was adjourned at 2:47pm.

Respectfully submitted,

Walt Haven, Energy Program Supervisor
DEMLR Staff