Meeting Minutes of the Funding Levels and Potential Funding Sources

Study Group of the North Carolina Mining and Energy Commission January 31, 2013

1. Preliminary Matters

Director Lewis-Raymond called the meeting to order at 3:00 p.m. and welcomed all study group members and others attending. 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.

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

2. Study Group Members

Ms. Jane Lewis-Raymond (Director)

Mr. Ward Lenz (substituting for Jonathan Williams)

Dr. Vikram Rao

Ms. Erin Wynia

Ms. Judith B. Corley-Lay

3. **DENR Staff Members**

Mell Nevils Katherine Marciniak Debra Godwin Walt Haven

4. Others in Attendance

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

5. Introductions

Those in attendance introduced themselves to others in the group.

6. Approval of Minutes January 31, 2013

Dr. Vikram Rao made a motion, seconded by Ms. Erin Wynia, to approve the minutes with the amendment to correct the spelling of Dr. Vikram Rao's name. Vote was unanimous.

7. Director Lewis-Raymond requested that #8 on the agenda entitled "Review of Proposed Draft Outline for Study Report" be moved up to be discussed for any additions or changes to the current outline for the study report that may occur during the meeting.

8. Overview of Current Fee Imposed by the Oil and Gas Conservation Act and Rules and Review of Proposed Draft Outline for Study Report

Mr. Nevils noted that Ms. Trina Ozer was unable to be present the meeting. Mr. Nevils addressed the group on the summary of fees, taxes, and penalties in the North Carolina Oil and Gas Conversation Act and 5D Rules. (See attached handout.)

9. Presentation on Bonding

Mr. Nevils presented a comparison of bond requirement from other oil and gas states. He also presented a draft bond proposal that is currently being discussed by the Technical Advisory Committee of the Sedimentation Control Commission. (See attached draft.) He indicated that the Committee could use it as an example if bonding for reclamation was needed. Mr. Nevils also discussed how the Mining Program addresses bonding for mine reclamation through either blanket bonding or site specific bonding. He also explained that the mining program also issues partial releases of bonds based on site reclamation, and that this could also be applied to the oil and gas permits.

10. Review of Analysis of Cost Associated with Emergency Management and Law Enforcement.

Director Lewis-Raymond stated that this item would have to be deferred as Chairman Womack was not present.

11. Overview of other State's Fee Structures

Director Lewis-Raymond stated that the group should possibly look at identifying the existing fee structure and if changes are needed, to request legislation for amendments if the fees would not cover the cost of administration of the program.

Director Lewis-Raymond advised the group that she had looked at other states for fee structuring and Pennsylvania was the one that seemed the most applicable and encompassing. She stated that her review of Arkansas showed that the current fee structure was insufficient so she decided to discontinue research on that state.

Dr. Rao stated that Pennsylvania is the state to follow as they have experience with the entire process.

The group discussed the following:

- The impact/damage that the trucks carrying materials will have on the roads and how the fees would be imposed to the operators;
- If the fees will be calculated based on wet gas, dry gas, or both;

- A special fee structure for the Department of Transportation to assess fees based on what goes on the ground;
- Fees to cover overhead;
- Possible activation of the rail system to carry materials.

Mr. Nevils stated that staff would do research to find out what the costs Pennsylvania has to cover impacts.

Ms. Lewis-Raymond summarized a few points following out of the discussion:

- If there is a fee structure for DOT, it should be included;
- The operator is responsible for any emergency management expenses;
- Staff will research if NC may need to imposes criminal liability penalties;

12. General Discussion

During discussion of the impact trucks may have on the roads, representatives from NC-DOT, stated that bridges may be impacted as well and would be very costly to repair or replace. Many of the bridges in affected counties are timber structures and could cost between \$400,000 and \$1,000,000 to replace.

Three areas of bonding were discussed:

- DOT bonding for impacts to roadways;
- DENR bond to cover well plugging and abandonment, site phase development based on the site, well, or operator;
- Land surface bonding to cover the remediation of the land affected.

Dr. Rao stated that the group should look into more available automation and what's the best technology to limit inspectors and to get the information to them. He stated that he would work on this and bring it to the group at a later meeting.

Director Lewis-Raymond stated that the report must be done by October 2013. She noted that a draft could be completed by July 15 and presented to the Mining and Energy Commission at their meeting on July 26.

Future meetings were scheduled as follows: February 20 (3:00 pm - 5:00 pm), March 22 (1:30 pm - 3:30 pm), April 10, April 23, May 23, June 17, June 25 and July 8 to review the report draft.

Mr. Nevils asked Director Lewis-Raymond on what topics she would like staff to proceed with for the next meeting. Staff has been directed to move forward on well plugging and site reclamation sections of the report, and to address possible schedules for bond adjustments based on on-site activity/phases. DENR staff was also asked to look into the Arkansas fee and bonding structure.

Topics for the February 20, 2013 meeting include the following items:

- Potential ways to assess costs associated with the regulating of oil and gas activity.
 - Look at ways to incorporate the DENR shale gas report and the PA structure.
- From NCDOT- Look at typical work that NC-DOT would need to do to prepare infrastructure for the increased traffic and loading.
- Identify additional costs to law enforcement and emergency officials.

The meeting adjourned at 5:00 pm.

DEMLR staff contact for these minutes: Walt Haven, Energy Program Supervisor