MEETING OF THE COMPULSORY POOLING STUDY GROUP
NORTH CAROLINA MINING AND ENERGY COMMISSION
April 12, 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 approximately 9:00 am and read the ethics statement into the record.

Dr. Covington welcomed everyone in attendance. 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
Ms. Charlotte Mitchell
Mr. James Womack

Study Group Resource Members

Mr. Theodore Feitshans, Department of Agriculture and Resource Economics, NCSU
Mr. John G. Humphrey, the Humphrey Law Firm
Mr. Jonathan Lanier, N.C. Department of Agriculture and Consumer Services
Mr. Matt Kemnitz, N.C. State Energy Office
Mr. Don Kovasckitz, Lee County Strategic Services
Mr. Bob Mack, N.C. Department of Insurance
Mr. Grady McCallie, North Carolina 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
Mr. Walt Haven
Ms. Trina Ozer
Mr. Toby Vinson

Others In Attendance

See attached sign-in sheets.

2. **Developing Terms Of Use (presentation attached)**

Mr. James Robinson of RAFI presented a draft of the terms of use to be used as an appendix to the final report of the Study Group. The Study Group added the following terms to be considered for the list:

- Production costs;
- Compulsory pooling;
- Unitization;
- Landman (current definition too broad); and
- Owner (explicitly exclude those who have leased their interest).

3. **Staff Recommendations On Cost Sharing And Payment Structures (presentation attached)**

Ms. Layla Cummings presented DENR staff recommendations on cost sharing. The staff recommends that if compulsory pooling is recommended by the Study Group, the Study Group approve an options approach that would allow the compelled party in a drilling unit to select the cost sharing alternative that best serves its interest. An example of statutory language for each approach was presented. The Study Group will continue the discussion on a cost sharing policy options next meeting when an industry expert will speak on the topic.

4. **Opening Discussion On Indemnification Issues (presentation attached)**

Mr. Ted Feitshans of North Carolina State University gave an overview of the indemnification issues the Study Group should consider going forward. The following issues were discussed:

- Negligence of the land/rights owner;
- Adverse impact on security agreements;
- Adverse impact of obligations under conservation easements;
- Recapture of federal/state conservation program payments;
- Adverse tax impacts;
- Complete or partial loss of the reduced property tax rate under North Carolina present use value tax program; and
- Impact on investment-backed expectations.

5. **Review Of Agendas For Upcoming Meetings (draft agendas attached)**

Study Group Chairman Covington reviewed the draft agendas prepared by DENR staff for the next three meetings. A new meeting was approved to be added to the schedule on May 31, 2013 in Raleigh.

6. **Public Questions And Comments**

Study Group Chairman Covington allowed the public in attendance to ask questions and make comments. Mr. Ed Harris said that he does not want to be compelled into giving up his mineral interest rights. Ms. Therese Vick asked how compulsory pooling would deal with split estates. Ms. Jeanie Ambrose asked how the boundary between surface and subsurface rights would be determined. The Study Group reiterated its recommendation that if implemented, Compulsory Pooling would only impact mineral, oil, or gas resources.

The meeting was adjourned at 11:30 am.