

GENERAL ASSEMBLY OF NORTH CAROLINA
SESSION 2011

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HOUSE BILL 242
Committee Substitute Favorable 4/19/11
Committee Substitute #2 Favorable 5/26/11
Fourth Edition Engrossed 5/31/11
PROPOSED SENATE COMMITTEE SUBSTITUTE H242-PCS80264-RIF-30

Short Title: Nat. Gas/Bond/Fee/Landowner Protect'n/Study.

(Public)

Sponsors:

Referred to:

March 8, 2011

A BILL TO BE ENTITLED

AN ACT TO (1) INCREASE THE AMOUNT OF THE BOND REQUIRED UPON REGISTRATION IN ORDER TO DRILL FOR OIL OR NATURAL GAS IN THE STATE; (2) INCREASE THE AMOUNT OF FEES APPLICABLE TO DRILLING AND ABANDONING OIL OR GAS WELLS; (3) ESTABLISH PROVISIONS FOR THE PROTECTION OF LANDOWNERS RELATIVE TO LEASES FOR OIL AND GAS EXPLORATION; (4) DIRECT THE DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES TO STUDY THE ISSUE OF OIL AND GAS EXPLORATION IN THE STATE, AND SPECIFICALLY THE USE OF DIRECTIONAL AND HORIZONTAL DRILLING AND HYDRAULIC FRACTURING FOR THAT PURPOSE; (5) DIRECT THE DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES TO CONDUCT AT LEAST TWO PUBLIC HEARINGS ON THE ISSUE IN THE AREA IN WHICH EXPLORATION FOR NATURAL GAS BY MEANS OF DIRECTIONAL AND HORIZONTAL DRILLING AND HYDRAULIC FRACTURING MAY OCCUR; AND (6) APPROPRIATE THE SUM OF ONE HUNDRED THOUSAND DOLLARS TO THE DEPARTMENT FOR THE CONDUCT OF THE STUDY AND THE HEARINGS.

The General Assembly of North Carolina enacts:

SECTION 1. G.S. 113-378 reads as rewritten:

"§ 113-378. **Persons drilling for oil or gas to register and furnish bond.**

Any person, firm or corporation before making any drilling exploration in this State for oil or natural gas shall register with the Department of Environment and Natural Resources or such other State agency as may hereafter be established to control the conservation of oil or gas in this State. Resources. To provide for such registration, the drilling operator must furnish the name and address of such person, firm or corporation, and the location of the proposed drilling operations, and file with the aforesaid Department a bond in the an amount totaling the sum of (i) five thousand dollars (\$5,000) plus (ii) one dollar (\$1.00) per linear foot proposed to be drilled for the well. (\$5,000) running to the State of North Carolina, conditioned that any Any well opened by the drilling operator upon abandonment shall be plugged upon abandonment in accordance with the rules of said the Department."

SECTION 2. G.S. 113-395 reads as rewritten:



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1 **"§ 113-395. Notice and payment of fee to Department before drilling or abandoning well;**
2 **plugging abandoned well.**

3 Before any well, in search of oil or gas, shall be drilled, the person desiring to drill the same
4 shall notify the Department upon such form as it may prescribe and shall pay a fee of ~~fifty-three~~
5 ~~thousand~~ dollars (~~\$50.00~~)(~~\$3,000~~) for each well. The drilling of any well is hereby prohibited
6 until such notice is given and such fee has been paid and permit granted.

7 Each abandoned well and each dry hole ~~promptly~~ shall be plugged promptly in the manner
8 and within the time required by rules ~~to be~~ prescribed by the Department, and the owner of
9 such well shall give notice, upon such form as the Department may prescribe, of the
10 abandonment of each dry hole and of the owner's intention to abandon, and shall pay a fee of
11 ~~fifteen-four hundred fifty~~ dollars (~~\$15.00~~)(~~\$450.00~~). No well shall be abandoned until such
12 notice has been given and such fee has been paid."

13 **SECTION 3.(a)** G.S. 113-389 reads as rewritten:

14 **"§ 113-389. Definitions.**

15 Unless the context otherwise requires, the words defined in this section shall have the
16 following meaning when found in this law:

17 ...

18 (7a) "Oil and gas developer or operator" or "developer or operator" shall mean a
19 person who acquires a lease for the purpose of conducting exploration for or
20 extracting oil or gas.

21 (7b) "Oil and gas operations" or "activities" shall mean the exploration for or
22 drilling of an oil and gas well that requires entry upon surface estate and the
23 production operations directly related to the exploration or drilling.

24 ...

25 (15) "Surface owner" means the person who holds record title to or has a
26 purchaser's interest in the surface of real property.

27"

28 **SECTION 3.(b)** Article 27 of Chapter 113 of the General Statutes is amended by
29 adding a new Part to read:

30 "Part 3. Landowner Protection.

31 **"§ 113-420. Notice and entry to property.**

32 (a) If an oil and gas developer or operator is not the surface owner of the property on
33 which oil and gas operations are to occur, before entering the property for oil and gas
34 operations that do not disturb the surface, including inspections, staking, surveys,
35 measurements, and general evaluation of proposed routes and sites for oil and gas drilling
36 operations, the developer or operator shall give written notice to the surface owner at least
37 seven days before the desired date of entry to the property. Notice shall be given by certified
38 mail, return receipt requested. The requirements of this subsection may not be waived by
39 agreement of the parties. The notice, at a minimum, shall include all of the following:

40 (1) The identity of person(s) requesting entry upon the property.

41 (2) The purpose for entry on the property.

42 (3) The dates, times, and location on which entry to the property will occur,
43 including the estimated number of entries.

44 (b) If an oil and gas developer or operator is not the surface owner of the property on
45 which oil and gas operations are to occur, before entering the property for oil and gas
46 operations that disturb the surface, the developer or operator shall give written notice to the
47 surface owner at least 14 days before the desired date of entry to the property. Notice shall be
48 given by certified mail, return receipt requested. The notice, at a minimum, shall include all of
49 the following:

50 (1) A description of the exploration or development plan, including, but not
51 limited to (i) the proposed locations of any roads, drill pads, pipeline routes,

1 and other alterations to the surface estate and (ii) the proposed date on or
2 after which the proposed alterations will begin.

3 (2) An offer of the oil and gas developer or operator to consult with the surface
4 owner to review and discuss the location of the proposed alterations.

5 (3) The name, address, telephone number, and title of a contact person
6 employed by or representing the oil or gas developer or operator who the
7 surface owner may contact following the receipt of notice concerning the
8 location of the proposed alterations.

9 (c) If the oil and gas developer or operator fails to give notice as provided in this
10 section, the surface owner may seek appropriate relief in the superior court for the county in
11 which the oil or gas well is located and may receive actual damages.

12 **"§ 113-421. Compensation for damages.**

13 (a) The oil and gas developer or operator shall be obligated to pay the surface owner
14 compensation for all of the following:

15 (1) Any damage to a water supply in use prior to the commencement of the
16 activities of the developer or operator which is due to those activities.

17 (2) The cost of repair of personal property of the surface owner, which personal
18 property is damaged due to activities of the developer or operator, up to the
19 value of replacement by personal property of like age, wear, and quality.

20 (b) When compensation is required, the surface owner shall have the option of
21 accepting a one-time payment or annual payments for a period of time not less than 10 years.

22 (c) The surface owner has the right to seek damages pursuant to this section in the
23 superior court for the county in which the oil or gas well is located. The superior court for the
24 county in which the oil or gas well is located has jurisdiction over all proceedings brought
25 pursuant to this section. If the surface owner or the surface owner's assignee is the prevailing
26 party in an action to recover unpaid royalties, the court shall award any court costs and
27 reasonable attorneys' fees to the surface owner or the surface owner's assignee.

28 (d) Conditions precedent, notice provisions, or arbitration clauses included in lease
29 documents that have the effect of limiting access to the superior court in the county in which
30 the oil or gas well is located are void and unenforceable.

31 **"§ 113-422. Indemnification.**

32 An oil or gas developer or operator shall indemnify a surface owner for damage to property
33 that is adjacent to property on which drilling occurs, as well as adjacent infrastructure, and
34 wells.

35 **"§ 113-423. Maximum lease terms.**

36 Any lease of oil or gas rights or any other conveyance of any kind separating rights to oil or
37 gas from the freehold estate of surface property shall expire at the end of 10 years from the date
38 the lease is executed, unless, at the end of the 10-year period, oil or gas is being produced for
39 commercial purposes from the land to which the lease applies. If, at any time after the 10-year
40 period, commercial production of oil or gas is terminated for a period of six months or more, all
41 rights to the oil or gas shall revert to the surface owner of the property to which the lease
42 pertains. No assignment or agreement to waive the provisions of this subsection shall be valid
43 or enforceable. As used in this subsection, the term "production" includes the actual production
44 of oil or gas by a lessee, or when activities are being conducted by the lessee for injection,
45 withdrawal, storage, or disposal of water, gas, or other fluids, or when rentals or royalties are
46 being paid by the lessee.

47 **"§ 113-424. Applicability; effect.**

48 This Part applies to leases or contracts, and amendments to leases or contracts, entered into
49 on or after June 15, 2011."

50 **SECTION 4.** The Department of Environment and Natural Resources, the
51 Department of Commerce as specifically directed by subdivision (5) of this section, and the

1 Consumer Protection Division of the Department of Justice as specifically directed by
2 subdivision (8) of this section shall study the issue of oil and gas exploration in the State and
3 the use of directional and horizontal drilling and hydraulic fracturing for that purpose. The
4 Department of Environment and Natural Resources, in conjunction with the Department of
5 Commerce and the Consumer Protection Division of the Department of Justice, shall report
6 their findings and recommendations, including specific legislative proposals, to the
7 Environmental Review Commission no later than May 1, 2012. At a minimum, the study shall
8 include information on the following:

- 9 (1) Oil and gas resources present in the Triassic Basins and in any other areas of
10 the State.
- 11 (2) Methods of exploration and extraction of oil and gas, including directional
12 and horizontal drilling and hydraulic fracturing.
- 13 (3) Potential impacts on infrastructure, including roads, pipelines, and water and
14 wastewater services. In analyzing potential impacts, the Department shall
15 specifically examine the expected water usage from hydraulic fracturing,
16 water resources in the area in which drilling may occur, as well as existing
17 water users in the area that may be impacted by increased consumption of
18 water for use in hydraulic fracturing.
- 19 (4) Potential environmental impacts, including constituents or contaminants that
20 may be present in the fluid used in the hydraulic fracturing process; the
21 potential for the contamination of nearby wells and groundwater, as well as
22 the options for disposal and reuse of the wastewater produced; stormwater
23 management; the potential for emission of toxic air pollutants; impacts on
24 wildlife; management and reclamation of drilling sites, including orphaned
25 sites; management of naturally occurring radioactive materials (NORM)
26 generated by the drilling and production of natural gas; and the potential for
27 seismic activity in the area in which drilling may occur. In examining this
28 issue, the Department shall formulate regulatory requirements advisable to
29 address potential environmental impacts and in doing so shall gather
30 information on regulatory programs in other states where oil and gas
31 exploration or extraction is occurring, particularly with regard to the use of
32 hydraulic fracturing for that purpose.
- 33 (5) Potential economic impacts, including possible sources of revenue that could
34 accrue to the benefit of the State in the event that drilling for oil or natural
35 gas were to take place in the State. In examining this issue, the Department
36 of Commerce, in consultation with the Department of Environment and
37 Natural Resources, shall gather information on (i) the number of jobs that
38 may be expected as a result from drilling activities in the State and (ii) what
39 severance taxes, fees, royalties, bonds, or assessments may be appropriate in
40 connection with the activity. For any sources of revenue that may be
41 anticipated, the Department of Commerce, in consultation with the
42 Department of Environment and Natural Resources, shall evaluate use of the
43 revenue for the following purposes: funds necessary to implement an oil and
44 gas regulatory program; funds dedicated to the conservation and
45 preservation of land and water resources; funds dedicated to remediation of
46 environmental contamination such as the Inactive Hazardous Sites Cleanup
47 Fund; and funds dedicated to improving water and wastewater infrastructure
48 across the State.
- 49 (6) Potential social impacts, including impacts of drilling operations on nearby
50 communities and quality of life within those communities, recreational
51 activities, and commercial and residential development.

- 1 (7) Potential oversight and administrative issues associated with an oil and gas
2 regulatory program, including statutory authority necessary for
3 implementation of such a program; funding requirements necessary to
4 implement a stable and effective program; criteria for permit issuance or
5 denial; frequency and scope of inspections; compliance and enforcement
6 procedures; coordination of agency involvement to ensure efficient
7 permitting and clear delineation of compliance responsibilities; opportunities
8 for public participation; and data management.
- 9 (8) Consumer protection and legal issues relevant to oil and gas exploration in
10 the State, including matters of contract and property law, mineral leases, and
11 landowner rights. In examining these issues, the Consumer Protection
12 Division of the Department of Justice, in consultation with the Department
13 of Environment and Natural Resources, shall specifically examine
14 appropriate provisions on recommended disclosures to landowners,
15 compensation for damages, payment of royalties, and remedies for breach,
16 and any other matters the Division deems relevant. The Division shall also
17 study such issues in consultation with the Rural Advancement Foundation
18 International (RAFI).
- 19 (9) Any other pertinent issues that the Department deems relevant to oil and gas
20 exploration in the State and the use of hydraulic fracturing for that purpose.

21 **SECTION 5.** By February 1, 2012, the Department of Environment and Natural
22 Resources shall hold at least two public hearings at separate locations within the Triassic Basin
23 on the issue of drilling for natural gas by means of directional and horizontal drilling and
24 hydraulic fracturing. The public hearings shall be conducted in order to promote awareness of
25 the issue generally and inform and consult with the public and user groups on potential
26 environmental impacts, potential regulatory controls, potential economic impacts, and
27 consumer protection issues, including landowner rights and mineral leases. In developing the
28 consumer protection portion of the public hearings, the Department shall consult with the
29 Consumer Protection Division of the North Carolina Department of Justice and the Rural
30 Advancement Foundation International (RAFI).

31 **SECTION 6.** There is appropriated from the General Fund to the Department of
32 Environment and Natural Resources the sum of one hundred thousand dollars (\$100,000) for
33 the 2011-2012 fiscal year to complete the study and conduct the public hearings required by
34 this act.

35 **SECTION 7.** This act is effective when it becomes law.