

# Update on Energy Issues

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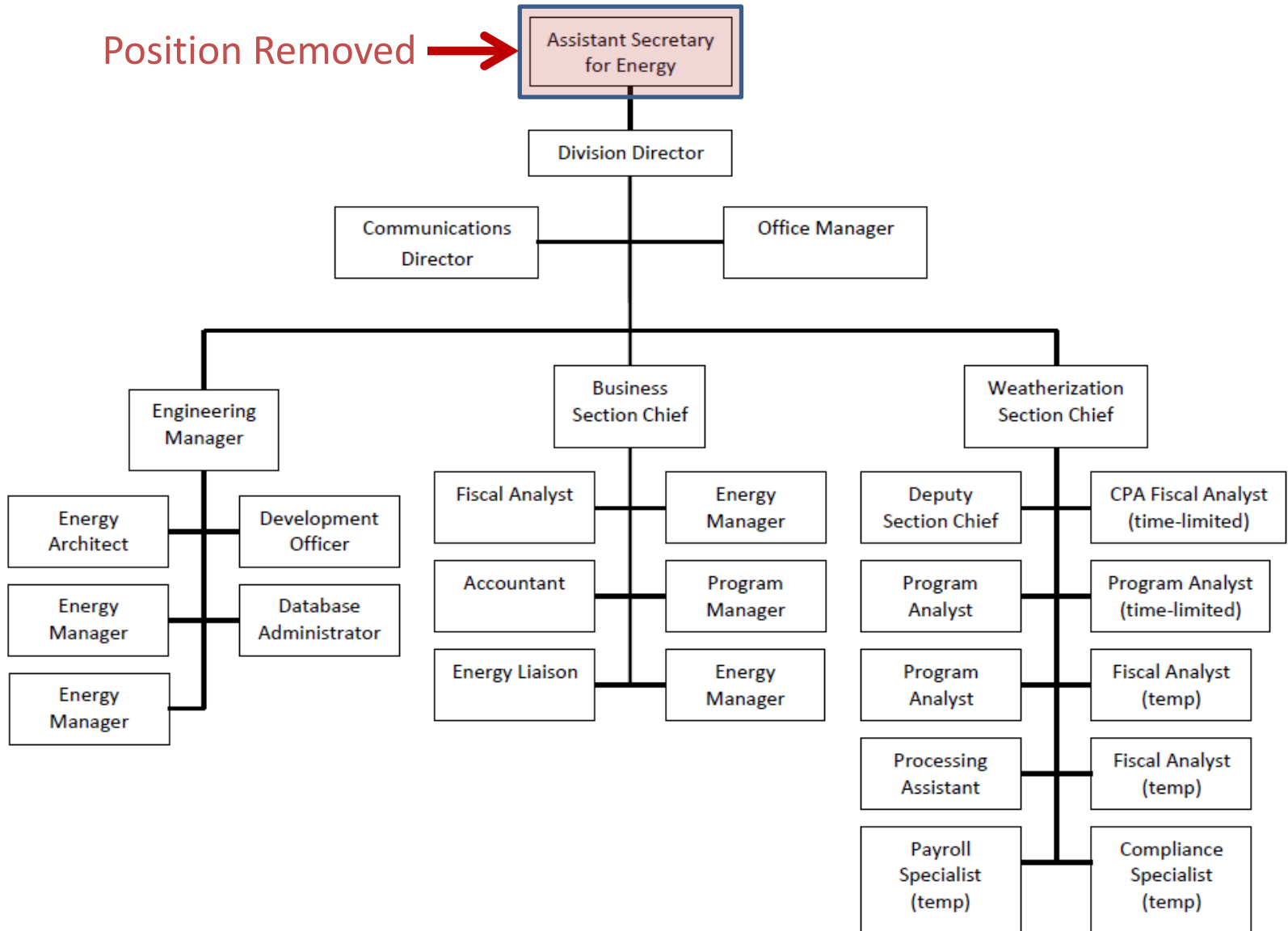
N.C. Department of Environment & Natural Resources



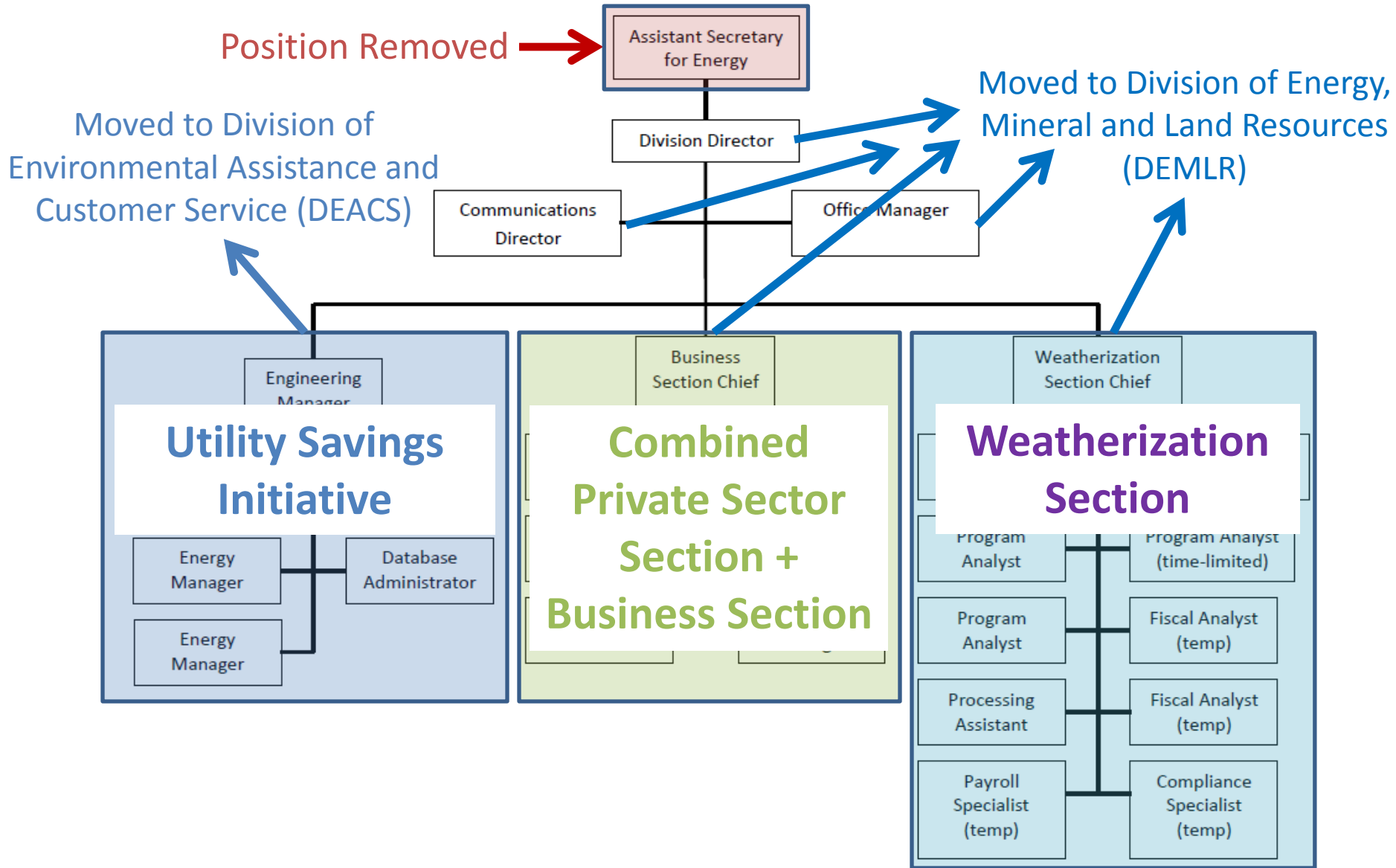
# Update on Energy Issues

- Merger of the State Energy Office with DENR
- New hires for the Energy Program in the Division of Energy, Mineral and Land Resources
- Consideration of expenditures of 2013 appropriations
- Findings and recommendations of DENR regarding Compulsory Pooling

# State Energy Office as of July 2013



# State Energy Office within DENR



# Current Hires in the Energy Program

- **Energy Program Supervisor:** Supervises staff working on rule development and supporting the MEC.
- **Senior Specialist:** Develops draft rule language and supports committees of the MEC; will provide permit review and enforcement in the future.
- **Geologist:** Develops draft rule language and supports committees of the MEC; will provide permit review and enforcement in the future.
- **Administrative Assistant:** Provides administrative support to both the Energy Program and to the members of the MEC.

# Future Hires in the Energy Program

- **Deputy Director:** Will assist the Division Director in this newly expanded department (will replace Director of the State Energy Office).
- **Rules Coordinator:** Assures the MEC addresses all necessary rules and manages the process of taking rules out for public comment and review by the Rules Review Commission.
- **Section Chief:** Manages the staff supporting the MEC.
- **Engineer:** Develops draft rule language and supports committees of the MEC; focuses on engineering requirements such as pit and tank standards; will provide enforcement in the future.
- **Geologist:** Develops draft rule language and supports committees of the MEC; will provide enforcement in the future.

# Unfunded but Needed Positions

- **Strategic Planning Manager for Energy:** This position is needed to promote the Governor's energy policy across the state.
- **Public Information Officer:** DEMLR is the only division in DENR that lacks a public information officer. DEMLR is now highly visible and interacts frequently with the public and the media. A PIO would reduce the burden on other Energy Staff to handle these activities, thereby freeing staff to focus on rule writing and enforcement.
- **Renewable Energy Specialist:** Needed to work on wind permitting and other renewable energy topics.
- **Office Assistant 4:** Needed to provide office support to this section that now has 30 additional staff members.

# Potential Expenditures of 2013

## Appropriations

| Priority | Budget summary                                                                                                                                                                                       | FY2013-14  | FY2014-15  |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| 1        | Task 1 - Rock mechanics                                                                                                                                                                              | \$ 119,975 |            |
| 2        | Task 2 - Cumberland-Marlboro basin                                                                                                                                                                   | \$ 61,000  |            |
| 3        | Task 3 - Flow test - Butler #3 well                                                                                                                                                                  |            | \$ 20,000  |
| 4        | Task 4 - Flow test - Simpson #1 well                                                                                                                                                                 | \$ -       | \$ 30,000  |
| 5        | Task 5 - Dan River-Danville basin - porosity tests                                                                                                                                                   | \$ 21,600  |            |
| 6        | Task 6 - Precambrian rift basin, western NC                                                                                                                                                          | \$ 11,725  |            |
| 7        | Task 7 - Hatteras Light well - offshore studies                                                                                                                                                      | \$ 7,040   |            |
| 8        | Task 8 - Plotter scanner - replace                                                                                                                                                                   | \$ 20,000  |            |
| 9        | Task 9 - Dan River-Danville basin - mineralogy                                                                                                                                                       | \$ 27,100  |            |
| 10       | Task 10 - Camden Co. rift basin                                                                                                                                                                      |            | \$ 6,750   |
| 11       | Task 11 - Pasquotank Co. rift basin                                                                                                                                                                  |            | \$ 6,750   |
| 12       | Task 12 - Bertie Co. rift basin                                                                                                                                                                      |            | \$ 519     |
| 13       | Task 13 - Anson Co. (Wadesboro) rift basin                                                                                                                                                           |            | \$ 6,750   |
| 14       | Task 14 - Further testing based on data gathered in FY14                                                                                                                                             |            | \$ 128,000 |
|          |                                                                                                                                                                                                      | =====      | =====      |
|          |                                                                                                                                                                                                      | \$ 268,440 | \$ 198,769 |
|          | Travel (profession meeting registration, travel, etc.);<br>contingency - year 1 - likely also temporary geologist<br>wages to assist with field work                                                 | \$31,560   |            |
|          | Travel (profession meeting registration, travel, etc.); rock<br>mechanics - Dan River-Danville basins - contingency - year<br>2 - likely also temporary geologist wages to assist with<br>field work |            | \$51,231   |
|          |                                                                                                                                                                                                      | =====      | =====      |
|          | Appropriated amount (by state fiscal year)                                                                                                                                                           | \$ 300,000 | \$ 250,000 |

Note 1: All tasks prioritized.

Note 2: Prices as of 24 January 2013 - institutional discount prices good until 31 December 2013.



# 2013 Appropriations

| Account Title              | 2013-2014 |               | 2014-2015 |               |
|----------------------------|-----------|---------------|-----------|---------------|
|                            | Recurring | Non-Recurring | Recurring | Non-Recurring |
| Salaries                   | \$207,750 |               | \$277,000 |               |
| Social Security            | \$15,893  |               | \$21,190  |               |
| Retirement Contributions   | \$30,518  |               | \$40,691  |               |
| Medical Insurance          | \$15,855  |               | \$21,140  |               |
| Board Transportation       |           |               | \$2,979   |               |
| Membership Dues            | \$29,984  | \$7,016       | \$37,000  |               |
| Contractual                |           | \$292,984     |           | \$250,000     |
| <b>Total Requirements</b>  | \$300,000 | \$300,000     | \$400,000 | \$250,000     |
|                            |           |               |           |               |
| <b>Total Receipts</b>      | \$0       | \$0           | \$0       | \$0           |
|                            |           |               |           |               |
| <b>Total Requirements</b>  | \$300,000 | \$300,000     | \$400,000 | \$250,000     |
| <b>Receipts</b>            | \$0       | \$0           | \$0       | \$0           |
| <b>Appropriation</b>       | \$300,000 | \$300,000     | \$400,000 | \$250,000     |
| <b>Number of Positions</b> | 4.00      |               | 4.00      |               |

# Compulsory Pooling: Findings

- Pooling is the joining together of parcels of land to have sufficient acreage to form a drilling unit under well spacing regulations.
- The N.C. Oil and Gas Conservation Act authorizes the use of integration or compulsory pooling to prevent waste and to avoid the drilling of unnecessary wells. (G.S. 113-393)
- Other states require a percentage of minimum voluntary agreement based on surface acreage before an operator can make an application for a pooling order.

# Compulsory Pooling: Percentage of Voluntary Minimum Agreement

- Additional information that will help inform North Carolina include the size of drilling units, spacing requirements and setbacks; this information is not yet available from the MEC
- Examples in other states:
  - Virginia requires 25% agreement
  - Arkansas requires 50% agreement for exploratory wells only
  - Tennessee and Kentucky require more than 50% agreement
  - Ohio has guidelines of the regulatory agency requiring 90% agreement (not in statute or regulation)
  - Many states have no requirement for voluntary agreement before making a pooling application

# Compulsory Pooling: Cost Sharing

- Under current law, North Carolina has a free ride approach: the compelled owner is carried for his share of expenses while the well is being drilled. If the well is successful, the owner is only responsible for his share of the costs of production.
- The Department needs additional information from the MEC in order to make decisions on recommendations regarding compulsory pooling, including:
  - The size of drilling units
  - Rules on setbacks

# More Information

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