



PAT MCCRORY

Governor

DONALD R. VAN DER VAART

Secretary

JENNY KELVINGTON

Executive Director

MEMORANDUM

TO: ENVIRONMENTAL REVIEW COMMISSION
The Honorable Jimmy Dixon, Co-Chairman
The Honorable Chuck McGrady, Co-Chairman
The Honorable Trudy Wade, Co-Chairman

JOINT LEGISLATIVE COMMISSION ON ENERGY POLICY
The Honorable John Szoka, Co-Chairman
The Honorable Mike Hager, Co-Chairman
The Honorable Andrew Brock, Co-Chairman

FROM: Jenny Kelvington
Executive Director of the Energy Group

SUBJECT: Quarterly Report on Activities Conducted Pursuant to S.L. 2012-143

DATE: January 6, 2016

Pursuant to Session Law 2012-143 section 1.(c), "the [Mining and Energy] Commission shall submit quarterly written reports as to its operation, activities, programs, and progress to the Joint Legislative Commission on Energy Policy and the Environmental Review Commission." On behalf of the Mining and Energy Commission, please consider the attached the formal submission of this report.

If you have any questions or need additional information, please contact me by phone at (919) 707-8481 or via e-mail at Jenny.Kelvington@ncdenr.gov.

cc: Tom Reeder, Assistant Secretary for the Environment
Matthew Dockham, Director of Legislative Affairs
Brad Knott, Legislative Liaison
Brad Atkinson, Energy Section Chief, DEQ - Energy Group
Walt Haven, Oil and Gas Program Supervisor, DEQ - Energy Group

N.C. Mining and Energy Commission
And Department of Environment and Natural Resources
Quarterly Report on Activities Conducted Pursuant to S.L. 2012-143
To the Joint Legislative Commission on Energy Policy
And the Environmental Review Commission
January 1, 2016

Session Law 2012-143, the Clean Energy and Economic Security Act, was ratified on July 2, 2012 and reconstituted the North Carolina Mining Commission as the North Carolina Mining and Energy Commission. The Act directs the Mining and Energy Commission (MEC) to establish a modern regulatory program for the management of oil and gas exploration and development in the State and the use of horizontal drilling and hydraulic fracturing treatments involved for that purpose. The Act directs the Commission to submit quarterly written reports on the Commission's operation, activities, programs, and progress to the Joint Legislative Commission on Energy Policy and the Environmental Review Commission (Section 1.(h)). The Department is also required to report on the progress in developing and adopting the rules required to be adopted by S.L. 2012-143. The quarterly reports shall include recommendations on changes required to existing rules and statutes and any other findings or recommendations necessary for the implementation of the Act (Section 2.(m)). This report satisfies both of these reporting requirements for the October through December, 2015 timeframe.

Neither the **Mining and Energy Commission** nor its subordinate committees met during this quarter, due to being decommissioned on July 31, 2015, in accordance with Session Law 2014-4, Section 4(b). The Session Law also established the **Oil and Gas Commission** (OGC) to replace the MEC.

On May 2, 2015 in Wake County Superior Court, Judge Stephens issued an order in 15 CVS 000127, Haw River Assembly v. Rao et al., enjoining the MEC from accepting applications for drilling units. The order also stayed the Haw River Assembly case pending the Supreme Court of North Carolina's decision in McCrorry v. Berger. As a result, permits for oil or gas well drilling cannot be issued by DEQ until after Haw River Assembly v. Rao is resolved. Additionally, initial convening of the OGC is pending resolution of these cases.

The Energy Section and the NC Geological Survey were organizationally moved from DEMLR and paired together to form the new Energy Group, on November 19, 2015. These two Sections are now reporting to DEQ's new Executive Director of the Energy Group, Jenny Kelvington.

The Energy Section continues to participate in local and regional education and outreach regarding oil and gas matters. Specific activities are delineated as follows:

- October 1, 2015: "Geology, Oil, and Gas in North Carolina" presentation provided to Pitt County's Early College High School program in Greenville, NC;
- October 13-14, 2015, "Oil and Gas in North Carolina" presentation provided during the 31st Annual Onsite Water Protection Conference at NCSU in Raleigh, NC;
- October 13, 2015: "Oil and Gas in North Carolina" presentation provided to an NC State University Mechanical Engineering class in Raleigh, NC;

- October 14, 2015: “Oil and Gas, in North Carolina” presentation provided to an NC State Environmental Sciences class in Raleigh, NC; and
- December 3, 2015: “Oil & Gas in North Carolina” presentation provided to NC’s West Piedmont Environmental Health Section in Concord, NC.

The Oil and Gas Program continues to assist the North Carolina Geological Survey (NCGS) in assessing hydrocarbon resource potential and has helped with rock sample processing, data compilation and plotting, and the technical review of professional conference and resource marketing posters. Additionally, staff are coordinating with the NCGS on the next Dan River Triassic Basin rock coring project, which is set to begin in early 2016.

Oil and Gas Personnel also assisted DEMLR’s Land Quality Section with reviewing construction site plans to help assess compliance with North Carolina’s erosion and sedimentation control statutes and rules. Engaging in this work is directly relevant to the program’s oversight of future oil and gas operations, which will involve land disturbance activities, requiring erosion and sedimentation control plan approval and on-site inspections.

The Oil and Gas Program continues to work with the NC Geological Survey, the American Association of Petroleum Geologists, the American Petroleum Institute, the Interstate Oil and Gas Compact Commission, and other professional organizations to receive cost-effective continuing education. These instructional sessions have helped staff become more technically proficient and have covered topics such as hydrocarbon source and reservoir rocks, well site safety, structural geology, advanced geo-statistics, and NC’s resource rocks. Additionally, staff attended the Shale Exchange conference in Pittsburgh, PA from October 19-22, 2015. This event provided Energy Section personnel with formal instruction on hydraulic fracturing, micro-seismic monitoring, oil and gas production, water and waste management, and global trends related to hydrocarbon development. Additionally, the meeting included field tours of gas processing and fractionation facilities, as well as active drilling and hydraulic fracturing sites. This conference also allowed staff the unique opportunity to exchange professional knowledge with industry scientists and engineers, market NC’s resources, and meet with oil and gas regulators from around the country to discuss industry specific regulations and critical topics.

Energy Section members attended the Erosion and Sedimentation Control Design Workshop on December 10, 2015 at NC State University. This seminar provided staff with essential skills and training to ensure the proper implementation of North Carolina’s Sedimentation and Erosion rules, as applied to oil and gas drilling and production sites.

The Oil and Gas Program has been working with industry and the Groundwater Protection Council to conduct a robust review of available geo-database products used by other state regulatory agencies to manage oil and gas well information. The Program would like to use an Internet accessible software package to store oil and gas well locations, permit information, well construction specifics, geophysical logging records, etc. The software would also allow for well locations to be plotted on an interactive digital map, so that the user could select a given well and access respective information. Ultimately, the Energy Section would like to have this sort of geo-database in place before the industry begins operating in North Carolina, to allow for more efficient relationships between industry, government, and the general public.

During 2015, the Oil and Gas Program hosted three interns and tasked them with researching regulatory standards in hydrocarbon-producing states and also provided them with opportunities for professional education. During this quarter, two of the three internships have come to completion, while the third intern remains on staff.

The Energy Section is working with the Department to complete a large-scale website migration project. As a result of this work, as well as the decommissioning of the MEC, many of the Commission's webpages have been archived and will be made available through a "drop box" internet portal. However, overall information regarding the Oil and Gas Program and 15A NCAC 05H may still be found here: <http://portal.ncdenr.org/web/mining-and-energy-commission/>. Additionally, the Department continues to share information with the public and will be developing new websites to service the (future) Oil and Gas Commission. Finally, the listserv is still being maintained and remains available for individuals who would like to receive updates. To sign up for the listserv, visit <http://lists.ncmail.net/mailman/listinfo/denr.shale.gas>.