

2021 Annual Report of the Oil and Gas Commission

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Department of Environmental Quality, on behalf of the Oil and Gas Commission

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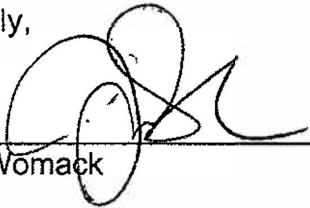
Executive Summary and Transmittal

Pursuant to N.C.G.S. §143B-293.1(c), the North Carolina Oil and Gas Commission (Commission), must submit annual written reports as to its operation, activities, programs, and progress to the Joint Legislative Commission on Energy Policy and the Environmental Review Commission.

Provided herein is the annual report of the Commission as to its operations, activities, programs, and progress for the 2021 calendar year.

Respectfully,

James K Womack
Chairman



Feb 9, 2022
Date

Commission Report and Proceedings

The year 2021 for the Oil and Gas Commission continued to be fraught with challenges caused by COVID-19 disruptions, just like those experienced by the rest of North Carolina governmental operations. The Commission convened the four, mandatory quarterly meetings as required by law, however, only three of the four meetings contained a quorum of Commission members. All meetings were held remotely in accordance with public health and gathering protocols. During this year, significant issues were discussed, and some procedures were developed for improved conduct of the Commission's business. The Commission also elected officers for the 2020-2021 term.

With regard to the Commission's membership, the Commission conducted meetings with five Commissioners in active terms, two Commissioners in holdover extended terms, and two unfilled vacancies. Three Gubernatorial nominations for appointment to the Commission have been pending since the Spring of 2019.

The most significant issues the Commission addressed this year were: wellbore integrity and environmental safety of North Carolina's only two shut-in gas wells; a relatively new U.S. Well Number Standard for all future wells drilled; drilling unit application regulatory review process; and drilling unit naming and administrative tracking.

The Commission's charge and duties may be found at N.C.G.S. §143B-293.1, or online (https://www.ncleg.gov/EnactedLegislation/Statutes/HTML/BySection/Chapter_143B/GS_143B-293.1.html). The following is an executive summary of the Commission's

<https://deq.nc.gov/energy-climate/energy-group/oil-and-gas-program/nc-oil-and-gas-commission>).

2021 Meetings

February 9, 2021

The meeting of the Oil and Gas Commission took place at 10:00 A.M. on 9 February 2021 via Webex tele-conference, hosted by the North Carolina Department of Environmental Quality (DEQ)

In attendance were Commissioner Rebecca W. Salmon, Commissioner Stanford Baird, Commissioner John Droz, Commissioner Dr. Jim Zhang, Vice-Chairman James K. Womack, and Chairman James C. Lister.

Assistant Attorney General Shawn Maier (North Carolina Attorney General's Office, Environmental Division) was introduced to the Commission.

The Commission moved to approve the draft copy of the Oil and Gas Commission Annual Report to the Joint Legislative Commission on Energy Policy and the Environmental Review Commission. All Commissioners present unanimously voted to approve the Annual Report.

Chairman Lister introduced discussion concerning the Informational Items on the agenda. Ms. Mundt provided an update on the State Ethics Commission statements, citing that there are no conflicts from any Commission members with the exception of the possibility of a potential conflict that Commissioner Salmon made note of in her statement. Mundt explained that the Statements of Economic Interest (SEI) are due each year near the tax filing date deadline.

Ms Mundt provided an update on the status of the individuals nominated (yet to be confirmed) to the Commission. The three members nominated by the Governor have not been taken up by the Legislature for appointment consideration. Additionally, the seat reserved for an engineer with experience in the oil and gas exploration and development industry has subsequently become vacant. Ms Mundt added that Commissioner Salmon's seat (an elected official of a municipal government located in a region of North Carolina that has oil or gas potential) expired in December and is now, therefore, a hold-over seat due for re-nomination and re-appointment. Consequently, there are five Commission seats currently open for nomination and/or appointment. Mundt highlighted that in the Commission's Annual Report that will soon be delivered to the Legislature there is an affirmative request that the Legislature take up this issue of appointing Commission seat nominations.

North Carolina Geological Survey Senior Geologist Jim Chapman and Dr. Taylor report that there have been no oil or gas inquiries since the last Commission meeting. Taylor stated that there are currently 106 individuals listed on the Landman Registry. Lister

invited the idea of further future discussion concerning potentially culling the Landman Registry within a defined period of time based on correspondence with the Registry members. Womack and Salmon expressed interest in discussing the subject further. Lister suggested making this topic an Action Item for the next Commission meeting. It was agreed among the Commissioners.

Chairman Lister introduced discussion concerning the API vs. US Well Number Standard. Lister explained the API format to the Commission. He suggested that there does not need to be a change to the API numbers when they occur in the Oil and Gas rules but that the Commission should address the new well number standard in the rules. One way, Lister suggested, to address the issue is to introduce a statement in the rules that references to the API number have been subsequently replaced by the US Well Number Standard. Womack suggested that the Commission should bring in the rules-making coordinator for consultation. Womack suggested introducing a rule for the drilling unit naming standard.

Chairman Lister introduced discussion concerning the NAD83 (North American Datum, 1983) geodetic reference system. Taylor presented information about the new reference system being introduced in 2024 to replace NAD83 (rather than 2022 as previously projected)

Chairman Lister introduced the drilling unit naming convention topic. Lister suggested a system based on the 1:24,000 topographic quadrangle maps which uses the coordinates of the southeast corner of the quadrangle map as a unique identifier. As a working model, the system would first reference the topographic quadrangle, followed by the drilling unit, followed by the US Well Number county number, followed by something chosen by the operator of the unit. Womack drew attention to potential digital searching/filtering issues but liked the system as a working model. Further, Womack suggested adding a character limit on the name. It was suggested that an IT naming convention expert could be invited to speak to the Commission at the next meeting.

Lister reminded everyone that the next Commission meeting date is 11 May and ended the Informational section of the agenda.

There were not enough Commission Board members present to establish a quorum to conduct business.

May 11, 2021

The meeting of the Oil and Gas Commission took place at 10:00 A.M. (ET) on 11 May 2021 via WebEx tele-conference, hosted by the North Carolina Department of Environmental Quality (DEQ).

In attendance were Commissioners Rebecca W. Salmon, Stanford Baird, John Droz, Jr., John Lucey, and Chairman Lister. A quorum was declared.

Chairman Lister opened the discussion with some remarks and questions, then reminded the Commission that the Commission will take comments at the end of the

meeting and that people are limited to comments only. Chairman Lister asked Ms. Mundt if there is new information regarding the status of the nominated, but yet to be confirmed, people that would potentially bring the Commission to its full nine-member status. Ms. Mundt responded that there is no new movement within the General Assembly. The letter will likely be addressed to the Senate and House leadership with a copy sent to the Governor as well.

Chairman Lister moved the discussion to the Action Items. Commissioner Droz made a motion to approve the 9 February 2021 Commission meeting minutes, seconded by Commissioner Baird. The minutes were unanimously approved.

Chairman Lister moved the discussion to the Informational Items. State Geologist and North Carolina Geological Survey Section Chief Dr. Kenneth B. Taylor conveyed to the Commission that there have been a few inquiries to the Survey since the last meeting:

Dan Daniels called regarding oil/gas potential in Onslow County, an oil/gas industry professional made an initial inquiry but did not (or has not yet) followed up. Russ Patterson (Lee County-based driller) and Dan Butler conducted a pressure/flow test on the Butler #3 well – recording readings of 850-900 psi. Dr. Taylor noted that this is within the psi range recorded approximately 10 years ago, when the well was last tested. Dr. Taylor further commented that Dan Butler is making inquiries into the potential for recovering helium from the wells.

DEQ Rulemaking Coordinator Jennifer Everett gave a presentation to the Commission regarding the process and procedure for changing the Commission's rules. An action/responsibility summation included: (1) drafting rule changes and fiscal note, (2) EMC approval of rules and fiscal note for public comment and hearing, (3) public comment period, (4) EMC approves hearing officer's report, fiscal note, and adopting rules, (5) Rules Review Commission approves rules, and (6) approved rules go into effect. Ms. Everett remarked that this process takes approximately a year when all goes well.

Vice-Chairman James K. Womack, Jr. entered the meeting and asked Ms. Everett what the appropriate way to move forward with a rule changing petition would be. Ms. Everett and DOJ Assistant Attorney General and Commission Counsel Shawn Maier responded that it would be a good idea to have a rule making committee petition the full Commission. Chairman Lister expressed his opinion that the rule changing committee should be reconstituted for such a petition. Chairman Lister asked if the Office of State Budget and Management (OSBM) worked under a time constraint for such a petition. Ms. Everett responded that it was not, and Vice-Chair Womack offered that some of the time considerations may be alleviated by potential waivers from the OSBM. Chairman Lister stated that he was inclined to have all the rules reviewed at the same time in order to clean up typographical errors and the like left over from the initial codification. Vice-Chair Womack concurred, emphasizing technological changes and advancements in the industry that might need to be accommodated in the current rules.

Commissioner Droz suggested that the Commission address the issue of typographical errors before policy related issues were addressed by the Commission. Chairman Lister asked for detailed clarification from Dr. Taylor who stated that there is an identified final version of the rules and that the DEQ would supply the Commission with that version. Vice-Chair Womack suggested that it might be worthwhile to consider reconstituting committees to perform a qualitative review of the rules for technical issues, then send that product to the rules committee for a final review. Chairman Lister concurred, and together with Commissioner Lucey reminded the Commission that in 2019, the Chairman previously reviewed the rules and followed that with a presentation to the Commission.

Dr. Taylor, at the request of Chairman Lister, offered an explanation for the differences between the American Petroleum Institute's (API) well numbering and the Professional Petroleum Data Management's (PPDM) U.S. Well Numbering Standard. Dr. Taylor stated that in 2010 the API, after determining that their responsibilities were too vast to take on revamping the well numbering system in order to accommodate new technologies that now provide multiple wellbores from a single surface entry point, i.e., transferred the well naming responsibilities to a different organization (PPDM), whose one responsibility would be managing the petroleum wells numbering system. Dr. Taylor clarified that the code is completely a numeric code and that unsuccessful drilled wells for oil/gas discovery purposes also have numbers.

Chairman Lister asked Dr. Taylor who is responsible for assigning the numbers. Dr. Taylor responded that the DEQ staff assigns the numbers. Chairman Lister asks Dr. Taylor if the well number is tied to a particular geographic location (latitude/longitude) and Dr. Taylor responded that the number is tied to a geographical key.

Vice-chair Womack made a motion to vote on having the individuals currently on the Landman Registry contacted by the DEQ staff within the next six months, with the intent to discover if the individuals still wish to remain on the Registry. After discussion, Commissioner Baird stated that he believes maintaining the Registry for updated information is unnecessary and burdensome to the DEQ staff until there is oil/gas activity in the State. Vice-chair Womack countered that there is currently activity in the state in the way of potential business agreements being sought and made, if not actual drilling.

August 10, 2021

The meeting of the Oil and Gas Commission took place at 10:00 A.M. on 10 August 2021 via Webex tele-conference, hosted by the North Carolina Department of Environmental Quality (DEQ). Vice-Chairman James K. Womack, Jr. opened the meeting with a moment of silence and led the Pledge of Allegiance. He then read the Ethics reminder from the Elections and Ethics Enforcement Act, then asked for concerns for conflicts of interest. No concerns were voiced.

Commissioners in attendance were: Vice-Chairman Womack, Commissioner Rebecca W. Salmon, Commissioner Stanford Baird, Commissioner John Droz, Jr., Commissioner John Lucey, and Chairman James C. Lister.

The meeting agenda was approved. Vice-Chairman Womack moved the discussion to the approval of the May 2021 meeting minutes. Vice-Chairman Womack asked that the minutes be amended to show that he entered the meeting in time to hear the entirety of DEQ Rulemaking Coordinator Jennifer Everett's rule-making presentation, rather than entering during the 32nd minute, as the minutes recorded. Vice-Chairman Womack opened the floor for a motion to approve the May 2021 meeting minutes. DEQ Senior Policy Advisor Jennifer Mundt clarified that the vote would be for the amended minutes that Vice-Chairman Womack previously asked for. Vice-Chairman Womack acknowledged the clarification. Commissioner Baird made a motion to approve the minutes, seconded by Commissioner Lucey. Vice-Chairman Womack conducted a vote on approval of the minutes. All Commissioners in attendance voted to approve the minutes.

Vice-Chairman Womack moved the discussion the election of Commission officers. DOJ Assistant Attorney General and Commission Counsel Shawn Maier conducted the roll-call election procedure. Chairman Lister made a motion to elect Vice-Chairman Womack as Chairman, seconded by Commissioner Droz. After the roll-call vote, Vice-Chairman Womack was unanimously elected as Chairman. Mr. Maier declared Vice-Chairman Womack as Chairman. Chairman Womack made a motion to elect Commissioner Lister as Vice-Chairman, seconded by Commissioner Lucey. After the roll-call vote, Commissioner Lister was unanimously elected as Vice-Chairman. Mr. Maier declared Commissioner Lister as Vice-Chairman.

Chairman Womack moved the discussion to the summary of inquiries to the Geological Survey regarding interest in drilling units since the previous meeting. State Geologist and North Carolina Geological Survey Section Chief Dr. Kenneth B. Taylor offered that there have been no inquiries but that there has been a journalist's inquiry regarding the oil and gas rules development.

Chairman Womack asked Dr. Taylor if there had been any follow-up from a gentleman from Salisbury who inquired regarding helium (from several years ago). Dr. Taylor responded that there had not been. Dr. Taylor offered that he counseled Mr. Dan Butler (mineral rights owner of the Simpson #1 and Butler #3 wells) that if he were to drill new wells they would be subject to the current drilling unit rules. Dr. Taylor said that Mr. Butler is not interested in helium exploration at this time. Dr. Taylor reminded the Commission that the helium signatures of the two wells have an average 0.2% helium which is close to, but still under, the current economic limit for recovery. Chairman Womack expressed interest in meeting with DEQ staff regarding drilling unit procedures.

Chairman Womack moved the discussion to setting the Commission meeting calendar for 2022. Ms. Mundt reminded the Commission that convention has held that the Commission meets on the second Tuesday of the second month of the quarter and that if the Commission would like to maintain that convention she will distribute the dates to consider by the November 2021 meeting. No Commissioner voiced issues with the convention. Chairman Womack said that the Commission would hold to the convention for the time being.

Chairman Womack expressed interest in approaching both bodies of the General Assembly to inquire as to the status of the open Commission appointments. Mr. Maier stated that that would be an appropriate action.

After reminding the audience that public comments are limited to 3 minutes per commenter, Chairman Womack opened the floor to public comments.

Chairman Womack expressed his gratitude to everyone for being flexible regarding the COVID-19 pandemic. He also expressed his appreciation to the Commission members who have continued to serve even though their term has expired. Finally, he asked the Commission to consider sub-committee formation for the near future.

November 9, 2021

The meeting of the Oil and Gas Commission took place at 10:00 A.M. on 9 November 2021 via WebEx tele-conference, hosted by the North Carolina Department of Environmental Quality (DEQ).

In attendance: Commissioner Rebecca W. Salmon, Commissioner Stanford Baird, Commissioner John Lucey, and Chairman James K. Womack.

Chairman Womack moved the discussion to a statement from State Geologist and Geological Survey Section Chief Dr. Kenneth B. Taylor regarding inquiries to the Geological Survey concerning oil or gas permitting since the August 2021 meeting. Dr. Taylor declared that there have been no inquiries to report.

Chairman Womack moved the discussion to a presentation from representatives of the Pennsylvania Department of Environmental Protection regarding new regulatory standards for oil and gas exploration and development (Charles Boritz, Air Quality Engineering Specialist and Viren Trivedi, Air Quality Permit Chief). Report highlights from Pennsylvania: on-shore natural gas facilities must report greenhouse gases; pipelines are regulated by Pennsylvania's Department of Transportation; the process of "pigging" was described as a mandated method of moving a cylinder-shaped device, which is moved through the pipeline periodically, to remove excess liquid material build-up; and the EPA tracks CO2 emissions based on what is exported from the refining plant.

Mr. Boritz continued, pointing out that the federal requirement for custody transfer differs between oil and natural gas and, given the changes that have taken place between federal administrations, the agency authority may have changed for production facilities.

Chairman Womack asked DEQ staff if anyone in the Department has tried to identify where the federal rule changes since 2016 may have impacted North Carolina's rules, which may require the Commission do rule-making. Ms. Mundt responded that, to her knowledge, no one has made that attempt.

Michael Abraczinskas, DEQ Director of the Division of Air Quality offered that there is no regulatory action required on behalf of the Environmental Management Commission because the federal regulations are automatically adopted by reference. Mr. Abraczinskas added that the EMC performed an analysis in 2013-14 which determined that, at the time, the framework was adequate regarding air emissions from this type of activity. Chairman Womack reiterated his intention to visit with DEQ staff regarding the potential reviewing the need for rule-making activity.

Chairman Womack moved the discussion to the schedule for the Commission's meetings in 2022, which was distributed to the Commission and DEQ staff members prior to this meeting. All commissioners in attendance unanimously approved the schedule.

Chairman Womack moved the discussion to potential reconstitution of the DEQ oil and gas stakeholder group. Commissioner Salmon asked who was part of the stakeholder group. Chairman Womack answered that DEQ determined who was on the list. The Commission voted unanimously to reconstitute the oil and gas stakeholder group.

Chairman Womack moved the discussion to reconstituting a rules committee. Chairman Womack expressed his desire for Vice-Chairman James C. Lister to head-up this process in time for the next Commission meeting. In addition to Vice-Chairman Lister, Chairman Womack nominated Commissioner Droz to assist Vice-Chairman Lister on the rules committee. Chairman Womack said that he would make another appointment, but would defer on identifying which commissioner for now.

Commissioner Lucey left the meeting. DOJ Assistant Attorney General Shawn Maier advised that an attempt to regain quorum by contacting Vice-Chairman Lister could be made or the meeting would have to be adjourned. After an unsuccessful attempt to contact Vice-Chairman Lister by phone, Chairman Womack decided the meeting would have to be adjourned.

Finally, the Commission established meeting dates for 2022:

February 8, 2022

May 10, 2022

August 9, 2022

November 8, 2022