Funding Levels & Potential Funding Sources Study Group, chaired by Jane Lewis-Raymond (MEC members Jim Womack, Vik Rao)

All Study Groups report to full Mining & Energy Commission and are "finalizing" their recommendations to present to the Legislature by October 2013. Study Groups have numerous "invited" members representing various government sectors, public and private interests.

Study Group is tasked with making recommendations to the Legislature regarding:

(1) Recovery of costs related to State's permitting program for this industry;
(2) Revenue (impact fees) the industry should pay for Local government services and damage from this industry;
(3) Revenue (severance fees) the industry should pay to State government because of extraction of State's natural resources.

A) <u>Recovery of NC DENR and NC DOT staff costs for oil & gas permitting and compliance program...$2 million/yr.</u>

DENR/Division of Energy, Mineral and Land Resources <u>cost calculations</u> include staff salaries (adding 9 more), operating funds, field/lab equipment and clothing, computers and networks and data development, training costs, spill response. NC DENR staff time would be almost $1.1 million/yr, plus non-recurring equipment costs of $100,000. This calculation is based on permitting/operations in the Triassic Basin, only. The figure also includes $70,350 in recurring costs to pay per diem ($15/meeting), travel, lodging, training expenses for the Mining & Energy Commissioners meetings.

NC DOT estimates their <u>permitting costs</u> at $244,120/yr. for staff time related to roads & bridge engineering/maintenance and pavement engineering (based on 40 permits issued). PLUS NC DOT estimates their <u>inspection/compliance costs</u> at $674,308/yr. for staff time related to same functions (based on 40 permits). NC DOT staff time "could" cost in excess of $900,000/yr. They based estimates on adding 9 positions to handle the workload, protective equipment for workers, laptops, etc., and drilling exclusively in the Triassic basin. Does NOT include costs of building roads or bridges.

B) <u>Recovery of Local Government costs/Impact Fees</u>.

Hard to put an amount on this because it will be driven by events. Senate wants only severance fee, no impact fees, per Womack since it appears complicated. If impact fee collected (into General Fund?), local governments must apply to State (or MEC?). Reviewed

PA's impact fee structure which has variable rates tied to the market price of natural gas (higher fees when gas sells at $5.99/unit, and lower fees when gas sells at $2.25/unit) and the age of the well (first production year costs more, and decreases each following year). Vik Rao (former Halliburton guy) says two fees (impact and severance) are not a deterrent to this industry, and they like to spend money locally. Lewis-Raymond said drilling not likely to occur soon, and need to think of this as incubation industry. She also said will take time to build up the "midstream" production infrastructure (collection lines, compressor stations) in NC. Tax policy needs to let local governments recover costs (impact fees), and State costs (severance fees). Vik Rao said could consider a "proxy for activity" model for assessing impact fees. Example: Every 300-ft of horizontal frack is considered an "activity," and receives the same impact fee. That fee cover a volume of truck traffic etc. It would not be paid up-front to local government, but paid during the production process.

Brandon Jones, NC DOT, said still have impacts prior to actual fracturing...construction of well pad, wellhead, etc. Womack said the wellhead will have a fixed fee in the Comprehensive Permit. Jones wants burden for roads repair placed on the industry. Lewis-Raymond said county impacts do not include transportation (for most part), but waste handling, haz mat, emergency response, training of local government staff, schools, land use planning, social services...those are the impacts. Womack said he would write the preamble to this Study Group report.

C) Severance fees.

This is paid by operators directly to State when they extract natural resources. *Legislation still being worked out in S76 and H74 (formerly H94) relative to severance and impact fees: more study direction?* Womack says some legislators see industry as "cash cow" so they can reduce taxation. Lewis-Raymond requested a simple forecast based on Lee Co. *expected* volume of gas extraction using a natural gas market price $4.00/unit and then apply a 1%, 2%, and 3% severance tax. She provided a handout (National Conference of State Legislatures) that charts, by state, the variety of severance tax percentages each state assesses based on varying factors, such as gross revenue, production parameters, time and other numerous considerations, and then breaks down how that revenue is allocated between general and other state funds.

Diana Hales, retired