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) 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
HYDRAULIC FRACTURING FOR THAT PURPOSE; AND (4) DIRECT THE
DEPARTMENT OF ENVIRONMENT AND NATURAL RESOURCES TO CONDUCT
AT LEAST TWO PUBLIC HEARINGS ON THE ISSUE IN THE AREA IN WHICH
DRILLING FOR NATURAL GAS BY MEANS OF HYDRAULIC FRACTURING MAY
OCCUR.

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. 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 Department a bond in the 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
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:

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

Before any well, in search of oil or gas, shall be drilled, the person desiring to drill the same
shall notify the Department upon such form as it may prescribe and shall pay a fee of fifty-one
thousand five hundred dollars ($50,000) for each well. The drilling of any well is hereby
prohibited until such notice is given and such fee has been paid and permit granted.

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

SECTION 3. The Department of Environment and Natural Resources shall study the issue of oil and gas exploration in the State and the use of hydraulic fracturing for that purpose. The Department shall report its findings and recommendations, including specific legislative proposals, to the Environmental Review Commission no later than September 1, 2011. At a minimum, the study shall include information on the following:

1. Oil and gas reserves present in the Triassic Basin and in any other areas of the State.
2. Methods of exploration and extraction of oil and gas, including hydraulic fracturing.
3. Potential impacts on infrastructure, including roads, pipelines, and water and wastewater services. In analyzing potential impacts, the Department shall specifically examine the expected water usage from hydraulic fracturing, water resources in the area in which drilling may occur, as well as existing water users in the area that may be impacted by increased consumption of water for use in hydraulic fracturing.
4. Potential environmental impacts, including constituents or contaminants that may be present in the fluid used in the hydraulic fracturing process; the potential for the contamination of nearby wells and groundwater, as well as the options for disposal of the wastewater produced; the potential for emission of toxic air pollutants; impacts on wildlife; and the potential for seismic activity in the area in which drilling may occur. In examining this issue, the Department shall formulate regulatory requirements advisable to address potential environmental impacts and in doing so shall gather information on regulatory programs in other states where oil and gas exploration or extraction is occurring, particularly with regard to the use of hydraulic fracturing for that purpose.
5. Potential economic impacts, including possible sources of revenue that could accrue to the benefit of the State in the event that drilling for oil or natural gas were to take place in the State. In examining this issue, the Department shall gather information on (i) the number of jobs that may be expected as a result from drilling activities in the State and (ii) what severance taxes, fees, royalties, bonds, or assessments may be appropriate in connection with the activity. For any sources of revenue that may be anticipated, the Department shall evaluate use of the revenue for the following purposes: funds dedicated to the conservation and preservation of land and water resources; funds dedicated to remediation of environmental contamination such as the Inactive Hazardous Sites Cleanup Fund; and funds dedicated to improving water and wastewater infrastructure across the State.
6. Potential social impacts, including impacts of drilling operations on nearby communities and quality of life within those communities, recreational activities, and commercial and residential development.

SECTION 4. By February 1, 2012, the Department of Environment and Natural Resources shall hold at least two public hearings at separate locations within the Triassic Basin on the issue of drilling for natural gas by means of hydraulic fracturing. The public hearings shall be conducted in order to promote awareness of the issue generally and inform and consult with the public and user groups on potential environmental impacts, potential regulatory controls, potential economic impacts, and consumer protection issues, including landowner rights and mineral leases. In developing the consumer protection portion of the public hearings,
the Department may consult with the Consumer Protection Division of the North Carolina Department of Justice and the Rural Advancement Foundation International (RAFI).

SECTION 5. This act is effective when it becomes law.