STATE OF NORTH CAROLINA
OFFICE OF THE GOVERNOR

PAT MCCRORY
GOVERNOR

August 15, 2014

The Honorable Sally Jewell
Secretary, United States Department of the Interior
1849 C Street, NW
Washington, DC 20240

RE: Request for Information on 2017-2022 Outer Continental Shelf Oil & Gas Leasing Program

Dear Secretary Jewell:

I am pleased that the Interior's Bureau of Ocean Energy Management (BOEM) has begun preparations for the new Five Year Program which will open up new areas, including the Mid-Atlantic, for offshore oil and gas development. I agree that safely securing additional offshore energy resources will strengthen our nation's economy and free us from dependence on foreign oil and gas.

In your letter dated June 12, 2014, you ask that we (1) identify specific state laws, goals and policies related to Outer Continental Shelf (OCS) oil and gas activity that should be considered during the preparation of the 2017-2022 program; (2) address how the 2017-2022 program, as part of a domestic energy policy, could have an effect on the economic and social well-being of North Carolina's citizens; and (3) identify what effect OCS oil and gas development activity could have on the marine, coastal, and human environments of North Carolina. North Carolina appreciates your consideration of our state policies, social and economic well-being, and the protection of our valuable coastal resources during the development of the Interior's 2017-2022 OCS Oil & Gas Leasing Program.

Before addressing your specific requests, I first wish to commend you for issuing the Record of Decision on the Final Programmatic Environmental Impact Statement (PEIS) for Geological and Geophysical Activities in the Mid-Atlantic OCS Planning Area. The data gathered from seismic surveys will provide federal and state agencies with a better assessment of potential petroleum reservoirs so that we can make informed decisions about offshore development. I am a strong and consistent supporter of protecting our environment and will work to ensure that our shoreline and marine life are protected during all resource assessment activities. I am encouraged that the PEIS provides the mitigation measures to ensure seismic data is collected in a responsible and proven manner that effectively minimizes effects to marine wildlife in the Atlantic.

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Legal and Policy Considerations Related to Potential OCS Energy Development

North Carolina's ocean and coastal resources are managed under the state's federally approved coastal management program, which is administered by the North Carolina Department of Environment and Natural Resources, Division of Coastal Management. Federal consistency determinations for energy activities offshore North Carolina should take into consideration the relevant policies and goals set forth in the North Carolina Coastal Area Management Act (CAMA) under N.C. General Statutes 113A Article 7. The CAMA establishes the North Carolina Coastal Resources Commission (CRC) as the rulemaking body for coastal resource management. Administrative rules set forth by the CRC are contained in N.C. Administrative Code Title 15, Chapter 7. Rules specific to offshore energy are contained in Subchapter 7M, Section .0400.

The CRC finds that "the general welfare and public interest require that reliable sources of energy be made available to the citizens of North Carolina... [and]...that the development of energy facilities and energy resources within the state and in offshore waters can serve important regional and national interests." The CRC also recognizes development may affect North Carolina's coastal ecosystems and communities. To protect our valuable coastal resources, the CRC has included in the rules enforceable policies applicable to OCS activities and requirements to provide sufficient information to allow analysis of the consistency related to exploration or development of OCS resources and other relevant energy facilities. In Subchapter 7H, the CRC has identified environmentally sensitive areas including wildlife refuges, offshore reefs, hard bottoms, submerged aquatic vegetation beds, and anadromous fish spawning and nursery areas. North Carolina may require mitigation measures when ecological impacts to these areas cannot be avoided.

Fisheries for most of the fish species found in North Carolina's offshore waters are managed by the National Marine Fisheries Service (NMFS), under fishery management plans (FMPs) prepared by the South Atlantic and Mid-Atlantic Fishery Management Councils, as well as by the NMFS. In support of these FMPs, the South Atlantic Fisheries Management Council, acting through the NMFS, has designated certain areas as Essential Fish Habitat (EFH). Several areas in North Carolina's offshore waters have been designated as EFH and are also of particular relevance to OCS energy production. These include The Point, Ten Fathom Ledge, Big Rock and the sandy shoals of Cape Lookout, Cape Fear, and Cape Hatteras. Because of their importance to migratory species such as king mackerel, Spanish mackerel, dolphin and cobia, these areas should be protected from adverse direct, indirect, and cumulative impacts associated with OCS energy production. Estuarine-dependent species, such as black sea bass and gag, also migrate from estuarine nurseries to the extensive hard-bottom habitats associated with these EFH areas.

The North Carolina Environmental Policy Act (NCEPA), N.C.G.S. 113A Article 1, also applies to offshore energy activities. Similar to the National Environmental Policy Act (NEPA), the NCEPA requires North Carolina agencies to report on state actions that (1) involve an expenditure of public monies or use of public land and (2) may have significant effect upon natural resources, public health and safety, natural beauty, or historical or cultural resources of the state. Ocean activities within three miles of the coast are likely to invoke the reporting requirement in N.C.G.S. 113A-4. Under the NCEPA, the state action agency must also reach an independent determination on the adequacy of the environmental document and the need for mitigation.

Other North Carolina laws, goals and policies that should be considered in regards to ocean energy activities include:

- N.C.G.S. 113-229 (Dredge and Fill Act), which regulates activities involving excavation or filling work in coastal and estuarine water, including waters of the Atlantic Ocean, tidelands, and marshlands of the state.
- N.C.G.S. 143-215.1, which establishes water quality standards for both fresh and tidal waters and allows discharges only when they do not violate these standards.
- N.C.G.S. 74 Article 7 (Mining Act of 1971), which regulates energy activities that involve mining.

Domestic Energy Policy Considerations

I fully support environmentally responsible energy production in all areas of the Atlantic and Pacific OCS. It is prudent to include all leasing options in the Draft Proposed Program, understanding that circumstances affecting leasing decisions could change during the course of the program's development and implementation. Access to the 90 billion barrels of oil and more than 400 trillion cubic feet of natural gas the BOEM estimates are technically recoverable in the U.S. OCS will allow coastal states and communities to realize great economic opportunities and make energy more affordable and available throughout our nation. The successful development of the Gulf of Mexico and Alaska's OCS demonstrates how responsible offshore oil and gas development can generate jobs, spur activity in a host of associated industries, drive down energy costs, and generate billions of dollars in lease sales, production royalties, and tax revenue.

Access to oil and gas in the Mid-Atlantic will strengthen our energy assurance and enhance our state's economy. North Carolina relies completely on imports from other states and countries to supply all our transportation fuel needs. Most petroleum used in the state is produced in the Gulf of Mexico region. As petroleum suppliers have moved to just-in-time delivery, we have become more vulnerable when hurricanes in the Gulf area disrupt production. Petroleum shortages affect all sectors of our economy by limiting the availability of fuel for passenger and commercial vehicles, freight trucks, and buses. Having another supply of diesel fuel and gasoline will allow us to minimize transportation disruptions. Furthermore, more than half of all energy expenditures within our state are for transportation fuels. Increased petroleum supplies would likely make these fuels more affordable and spur job and economic growth in our state and our nation. Reasonable energy prices are also a powerful tool in the fight against poverty.

Similarly, the majority of North Carolina's natural gas supply comes from the Gulf Coast area. Williams' Transco Pipeline transports up to 10.2 billion cubic feet per day of natural gas from this region to suppliers in Mississippi, Alabama, Georgia, South Carolina, and North Carolina. Four natural gas local distribution companies serve a total of more than 1.2 million customers in our state, including our electric utilities. North Carolina is becoming increasingly dependent on natural gas for generating electricity. Since we passed the North Carolina Clean Smokestacks Act in 2002, our major electric providers, Duke Energy Carolinas and Duke Energy Progress, have shifted significant amounts of electricity generation from coal to gas-fired units. Between 2005 and 2012, Duke Energy retired a total of 46 coal-fired units. As of January 2014, twenty one natural gas-fired combustion turbine plants supply electricity throughout North Carolina. Proposed EPA rules regulating carbon dioxide emissions may push even more electricity to be generated with natural gas beginning in 2020 by requiring all natural gas combined-cycle units to operate at a 70 percent capacity factor each year, thereby removing the option to increase coal use when natural gas prices spike as occurred during February 2014 when prices increased 27% in one month to $6 per million Btu. Additional natural gas supplies in the Mid-Atlantic would better position our state to maintain reliable and more affordable electricity.

Growing North Carolina's economy is the top priority for my administration. Offshore energy in the Mid-Atlantic has the potential to create many good paying jobs and needed income for our state and nation. A Wood Mackenzie study found that the development of North Carolina's offshore resources could, by 2030, increase annual domestic oil and natural gas production by 382 million barrels, support more than 45,000 jobs, and contribute $3 billion in cumulative government revenue. However, we must also recognize oil and gas development imposes externalities including requiring new roads, docks and other infrastructure to be built and public services to be expanded for the workforce needed to cultivate this sector of our economy. It also comes with the inherent risk of an oil spill. As governor, it is incumbent on me to consider all these attendant externalities, especially those which could potentially threaten our ecosystems and the livelihood of our coastal residents.

To develop offshore energy responsibly and to protect our coastal resources, revenue sharing of the lease sales, rents, and production royalties to all participating coastal states in an equitable manner is essential. States require revenue sharing to address the challenges and opportunities associated with offshore energy production and to provide for effective pollution-prevention and response programs. Revenue sharing will also give our citizens as well as neighboring states fair compensation for the complete costs imposed by offshore energy development. I have faith that this administration will work with Congress to pass revenue-sharing legislation that will benefit the affected states. As governor, I have already signed into law a revenue allocation measure that directs the first $250,000,000 in proceeds from offshore revenue to a special offshore emergency management fund. This fund will help with the costs of environmental protection, mitigation and emergency preparation. Subsequent revenues will go toward education, infrastructure and economic development.

Environmental, Social, and Economic Considerations for North Carolina

We remain committed to protecting our coastal and ocean resources as an integral part of North Carolina's economy, nature and culture. The North Carolina Coastal Area Management Act identifies our coastal lands and waters as some of North Carolina's most valuable resources. Our coastal area, and particularly our estuaries, are among the most biologically productive regions in the nation. North Carolina's coastal and estuarine waters and marshlands provide almost 90 percent of the most productive sport fisheries on the east coast of the United States.

North Carolina has approximately 320 miles of ocean beaches and shoreline and 614,400 acres of submerged land and oceanic waters within the three-mile limit of state waters. Twenty-one barrier islands and two coastal peninsulas are separated by dynamic inlets and frame the state's expansive estuaries. Our coastline is unique compared to other East Coast states. The convergence of the southward-flowing cold water in the Labrador Current, and the northward-flowing warm waters of the Gulf Stream, in conjunction with the Western Boundary Undercurrent, causes an upwelling of nutrient-rich waters over unique bathymetric features that enhance the ocean's productivity off the North Carolina coast. Consequently, our state's coastal and ocean waters are filled with a particularly diverse and important mix of fish and other organisms at various stages of their lives.

North Carolina's coastal region includes several sites federally recognized for their natural and cultural resource value, including the Monitor National Marine Sanctuary, Cape Hatteras and Cape Lookout National Seashores, Albemarle-Pamlico National Estuary Partnership, North Carolina National Estuarine Research

Reserve, as well as eight national wildlife refuges. Associated with many of these areas is a variety of endangered and threatened species including sea turtles, pelagic seabirds as well as marine mammals.

Our barrier islands and beaches have extremely high recreational and esthetic value. North Carolina's coastal area supports industries critical to our entire state's economy and attracts millions of recreational visitors each year. The tourism industry in North Carolina's oceanfront counties generates more than $2 billion in revenue each year and directly supports more than 30,000 jobs within these coastal-area communities. During 2012, visitors to the three Outer Banks counties (Carteret, Dare, and Pamlico) contributed $1.2 billion in revenue and supported 14,600 direct jobs. In that same year, another $900 million in tourism revenue was generated in Brunswick and New Hanover counties with 10,200 direct jobs.

Additionally, the recreational and commercial fishing industries support more than 20,000 coastal region jobs. The National Oceanic and Atmospheric Administration (NOAA) reports "saltwater recreational fishing generated its [fourth] highest economic effect [among the states] in sales impacts and jobs in North Carolina ($2 billion sales, 18,000 jobs) in 2011." During that year, recreational fishing trips in North Carolina coastal waters totaled 4.7 million. The value of the tourism and fishing industries and the rich cultural heritage of our coastal areas demonstrate the immeasurable importance of protecting and sustaining the natural resources of our coast.

Thank you for the opportunity to provide comments on the Five Year Program. We appreciate the efforts of the BOEM to engage coastal governors and state agencies in this important process, and we look forward to continuing this dialogue throughout the development of the leasing program. Please direct any questions to Don van der Vaart, Deputy Secretary and Energy Policy Advisor with the North Carolina Department of Environment and Natural Resources at donald.vandervaart@ncdenr.gov or via telephone at 919-707-8475.

Sincerely,

Pat McCrory

Governor Pat McCrory