Statement of

The Honorable Pat McCrory

Governor of North Carolina

Before the

House Committee on Natural Resources

Subcommittee on Energy and Mineral Resources

On

"Examining the Future Impacts of President Obama's Offshore Energy Plan"

April 15, 2015

Chairman Lamborn, Ranking Member Lowenthal and members of the House Energy and Mineral Resources Subcommittee, thank you for inviting me to testify and provide my views on the future impacts of President Obama's Proposed Offshore Energy Plan. I'm testifying on behalf of the citizens of North Carolina whom it is my honor to represent. I also serve as chairman of the Outer Continental Shelf (OCS) Governors Coalition, a bipartisan group of nine coastal governors that advocates for safe, responsible offshore energy-resource planning and development. Many of the positions expressed in my testimony are consistent with the goals and positions of the OCS Governors Coalition.

I want to thank my good friend who is with us this morning, Representative Richard Hudson, for his powerful leadership in this arena. Representative Hudson is a co-chair of the Atlantic Offshore Energy Caucus which seeks to advance policies that explore and expand energy production in the Atlantic OCS as part of an "all-of-the-above" national energy strategy. Representative Jeff Duncan, a distinguished member of this subcommittee from South Carolina, is a co-chair of the caucus. I greatly appreciate the fine work the caucus is undertaking and value this important partnership.

I want to commend the House Committee on Natural Resources for advancing legislation during the 113th Congress to increase new offshore energy production in the Atlantic and the Pacific and implement revenue sharing programs for all energy-producing coastal states.

I'm here today to advocate for the inclusion of the Atlantic OCS in the Five-Year Program for oil and gas leasing, exploration and development, and to discuss the impacts its inclusion will have on North Carolina, its economy and infrastructure needs. I want to thank the Bureau of Ocean Energy Management (BOEM) for including a lease sale in the Atlantic in the Draft Proposed Program and request that it remain in the Final 5-Year Program.

Harnessing America's offshore energy reserves in an expeditious, environmentally safe and responsible manner will lead to greater independence and economic prosperity for North Carolina and the entire nation.

I've consistently advocated for an "all-of-the-above" energy policy as a gubernatorial candidate and as Governor. During my tenure as Governor, I have met extensively with elected officials and other stakeholders in beach communities, the coastal region and throughout the state to discuss the risks and potential that come with offshore energy activities.

I deeply respect the views of those who disagree with the positions I advocate. We share a passion for our clean water, fishing industry and the recreational use of our coastal resources. We would not be advocating for offshore energy development if we felt we were compromising these invaluable treasures. There is widespread support across our state for offshore leasing, exploration and development. The majority of North Carolinians agree that increased production of domestic oil and natural gas could help lower energy costs for consumers and strengthen America's energy security. The majority of North Carolinians also say that increased oil and natural gas production could benefit federal and state budgets through bonuses, lease payments, and royalty fees.

Many coastal elected officials have voiced their support for offshore energy development, including Mayor Dean Lamberth of Kure Beach, who sent a letter to the BOEM in support of opening the Atlantic OCS to oil and gas development. Coastal residents recognize the job creation and economic benefits offshore energy development would bring to the area, as well as potential revenue for beach re-nourishment and infrastructure needs.

A December 2013 study by Quest Offshore reflects that by 2035, new access to offshore energy resources could generate more than 55,000 jobs and $3 billion in annual spending within North Carolina.

Seismic Surveys

Prior to any lease sale or resource development, we must update the decades old geological and geophysical (G&G) information. New seismic imaging and other G&G studies will provide a better understanding of the true resource potential in the Atlantic planning areas, which will allow industry to develop the Atlantic in a more economically and environmentally effective manner. Updated G&G data will provide industry a clear picture of the location and extent of recoverable energy resources, increase the likelihood that exploratory wells will successfully extract hydrocarbons, and improve the safety of test well siting.

For seismic activity to take place, G&G companies must first undergo the lengthy process of obtaining a permit from the BOEM, an authorization from the National Marine Fisheries Service and a federal consistency determination from each of the affected states. The BOEM has received G&G applications from eight companies to date and is currently undertaking thorough analysis of the proposed G&G activities.

Last fall, the National Science Foundation conducted a 2D seismic survey of the seabed off North Carolina following the BOEM framework for research purposes. We received no reports of marine disturbances or use conflicts, nor any complaints during or after the seismic activity took place. While we are currently seeking and receiving public input on our consistency review of the permit applications, we are confident the strong mitigation measures required by the BOEM will effectively protect the marine ecosystem off North Carolina’s shores when G&G activities are conducted for oil and gas resource assessment. I encourage the BOEM to complete its review of the permit applications for seismic surveys by the end of this year.

Revenue Sharing

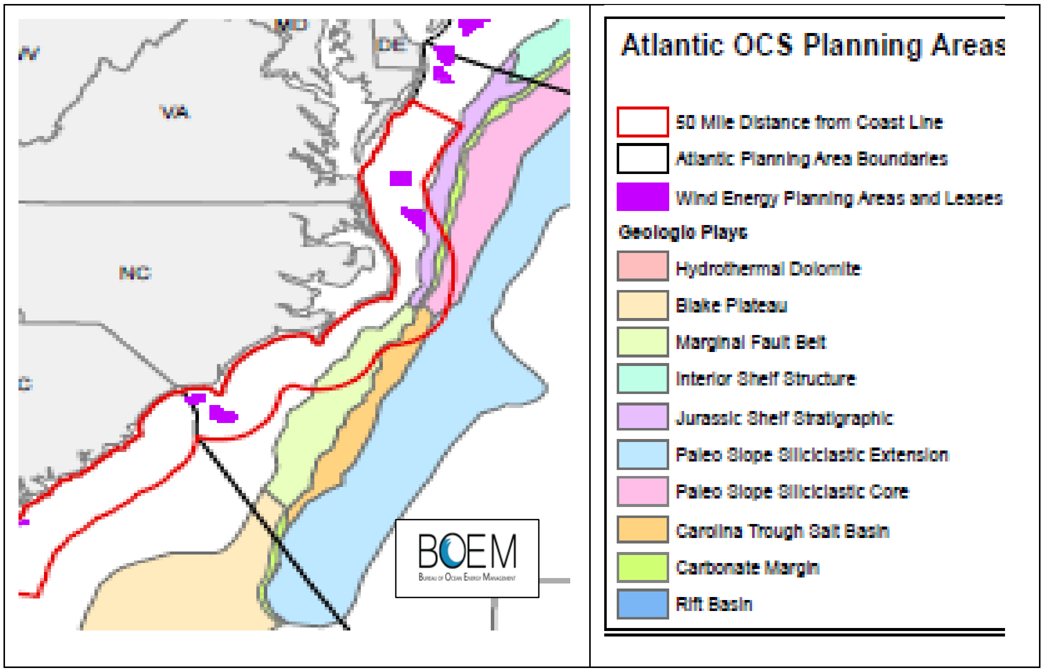
Offshore oil and gas should not be developed without equitable revenue sharing with coastal energy states. Frontier coastal states, like North Carolina, must provide infrastructure, expand public services and implement new environmental protection measures to prepare for offshore energy development. Coastal communities need revenue to offset potential impacts of offshore oil and gas activities and accommodate infrastructure demands such as beach nourishment, dredging, port expansion, road improvements, schools and environmental restoration. Revenue sharing is vital to address the related expenses that states and coastal communities assume with oil and gas exploration, drilling and production. It is incumbent upon me to take the costs and benefits into account when considering whether to support offshore activity in North Carolina. Considering these facts, North Carolina will not support offshore energy development without revenue sharing.

In FY 2014, production of the OCS generated $7.4 billion in government revenues from lease bonuses, rents and royalties. The royalties that oil and gas producers pay to drill on the OCS is one of the largest sources of non-tax income to the federal government. The December 2013 Quest Offshore study projects that production offshore North Carolina, South Carolina and Virginia could add a cumulative $16 billion to the federal treasury by 2035 even if 37.5% of the revenues were shared with the state governments. North Carolina, South Carolina and Virginia would receive a cumulative $4 billion, $3.7 billion and $1.9 billion respectively.

Last week, a bipartisan group of U.S. Senators from the four Atlantic planning area states sent a letter to the Senate Energy and Natural Resources Committee leaders urging the committee to include revenue sharing in future legislation. I want to stress that revenue sharing has strong bipartisan support. The Governor of Virginia, my good friend Terry McAuliffe, and both of Virginia's U.S. Senators, all of whom are Democrats, support revenue sharing. Both of North Carolina's U.S. Senators, my friends and fellow-Republicans Richard Burr and Thom Tillis, support revenue sharing. The letter our Senators sent last week stated that "coastal states deserve a portion of the revenue from energy production." Additionally, the OCS Governors Coalition member states of Alabama, Alaska, Louisiana, Maine, Mississippi, South Carolina, Texas and Virginia would strongly urge your support of revenue sharing legislation.

50-Mile Buffer Zone

The 50-mile buffer zone imposed for the Mid and South Atlantic planning areas in Option One of the Draft Proposed Plan (DPP) unnecessarily puts much of North Carolina's most accessible undiscovered resources under lock and key. Development of the OCS oil and gas energy resources can occur with nominal impact to existing and anticipated coastal activities and marine environments. Advanced drilling techniques, marine well containment and spill response, combined with greater regulatory oversight, have made access to the hydrocarbon reserves in the Atlantic OCS safe, attainable and economical. Over the next few years, new G&G information will help pinpoint the most promising oil and gas resource areas located off the shore of North Carolina while the environmental impact statement will identify possible impacts of the resource development on the other uses of the sea and seabed, including fisheries, navigation, existing or proposed sealanes, potential sites of deepwater ports, and other anticipated uses. With a greater knowledge of the North Carolina OCS, the leasing areas can be established in a way that best provides access to the hydrocarbon reserves, preserves the coastal environment and mitigates use conflicts.



Several geologic structures with oil and gas potential are located within the coastal buffer of North Carolina, particularly off the Outer Banks. Based on historical seismic data, strict application of the 50-mile buffer could place as much as 40% of North Carolina's potential offshore resources out of play, including the promising Manteo Prospect located approximately 40 miles off the shoreline.

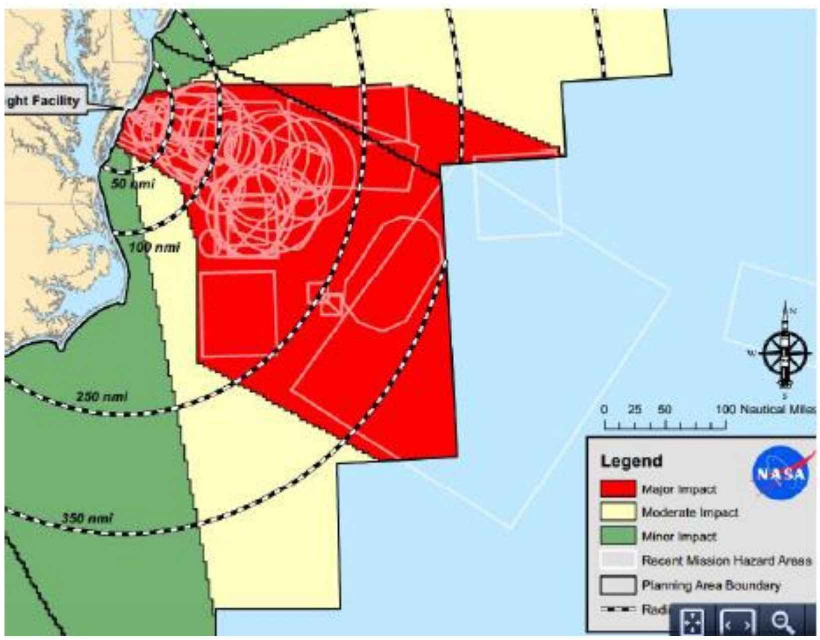
According to a 1999 U.S. Department of the Interior report titled *Geology and Exploration of the Manteo Prospect off North Carolina*, the Manteo Prospect is a "high-risk prospect with world class potential." In the early 1980's, eight oil companies including Mobil, Chevron, Amerada Hess, Conoco, Marathon, Oxy USA, Union and Shell, leased all 21 blocks of the Manteo exploration unit for a combined total of more than $300 million, which were later canceled by the Department of the Interior. Mobil estimated that the Manteo Prospect may contain as much as 5 trillion cubic feet of dry natural gas.

In much of North Carolina's offshore areas, the continental shelf drops off sharply within 50 miles from the coastline. Many areas, located 50 miles (80 km) or more offshore, are in deep water (+2500 feet). Drilling in deepwater reservoirs presents many engineering challenges. While technological advancements and rigorous design, construction and maintenance standards ensure deepwater drilling can be performed safely, it is more expensive and complex.

The BOEM stated in its report that the 50-mile coastal buffer zone was included primarily due to issues raised by the Commonwealth of Virginia, many of which are unique to our neighboring state to the north. The report states that the 50-mile buffer was imposed "to minimize potential conflicts with DOD activities as well as respond to the Governor of Virginia's comments regarding minimizing other multiple-use conflicts, such as renewable energy activities, commercial and recreational fishing, critical habitat needs for marine mammals and sea turtles, hard bottom environments, and other environmental concerns." The BOEM's Docket on the Request for Information on the 2017 to 2022 Program shows that Governor McAuliffe, the Virginia Department of Mines, Minerals and Energy, the Hampton Roads Chamber of Commerce and the Virginia Beach City Council asked for the 50-mile buffer for the coast of Virginia only.

The docket contains no comments requesting that a 50-mile coastal buffer be applied for the entire Mid-Atlantic planning area. Comments from the Ocean Foundation did call for no leasing within 50 miles of National Marine Sanctuaries, National Seashores, National Parks, National Estuarine Research Reserves, National Monuments and National Wildlife Refuges but a 50-mile buffer was not established for any nationally designated sanctuary, seashore, park, reserve, monument or refuge in the Gulf of Mexico or within an Alaska planning area. Only the Atlantic planning areas have a 50-mile buffer.

An expansive "one size fits all" exclusion zone in the Atlantic planning area is not the best mechanism for minimizing conflicts with existing and future maritime activities and protecting marine animals and critical habitats. In at least one case, for example, there are fewer concerns for conflicts *within* the 50-mile buffer. NASA indicates that in some instances, any major impacts from a launch are most likely to occur *beyond* the 50-mile buffer.



As I stated in my comments on the DPP, I urge the BOEM to reduce the proposed coastal buffer zone off the North Carolina coast. A reduced buffer would keep North Carolina's coastal and ocean activities undisturbed, maintain the view from our 320 miles of ocean beaches and shoreline, protect marine life and preserve the availability of potential resources. The final Environmental Impact Statement and the results of new G&G information should be the scientific basis for the establishment of any further buffer areas. The BOEM must acknowledge that the unique geographic characteristics of each state make the imposition of a "one size fits all" standard buffer zone impractical.

Additional Lease Sale

Section 18 of the Outer Continental Shelf Lands Act of 1953 directs the Secretary of Interior to take individual characteristics of a planning area into consideration to develop reasonable options for a schedule of proposed lease sales. For example, the Secretary must balance the benefits of oil and gas development in a specific planning area against the environmental risk and competing ocean uses. The potential for the Atlantic OCS to contain significant resources that could possibly supply petroleum products, distillate and propane into high demand markets for many decades factors into this decision.

The DPP proposes 10 lease sales in the Gulf of Mexico (GOM) planning areas but only one lease sale each in the Chukchi Sea, Beaufort Sea, Cook Inlet, and the Mid-Atlantic and South-Atlantic planning areas. The one Atlantic sale is proposed to take place in 2021, near the end of the Five Year Program. The DPP states that the later sale date allows time for additional analysis, including collection of seismic and environmental information, and evaluation of infrastructure needs. However, much of this analysis will be complete well in advance of 2021. A final Environmental Impact Statement must be in place by the start of the five year program in 2017 and seismic studies are expected to be available in 2018 for G&G surveys conducted in 2016. North Carolina already has much of the general infrastructure (e.g., roads, housing, and medical facilities) essential to begin oil and gas exploration. North Carolina will have ample time to implement the remaining support services and spill preparedness and response capabilities necessary for exploration to begin by the midpoint of the Five-Year Program.

The timing and number of lease sales in the Mid and South Atlantic planning areas increase investment risk for both the oil and gas producers and the states. At least two lease sales, including one in the 2018 to 2019 timeframe, are necessary to develop the Atlantic frontier OCS area in an economically responsible manner.

Preparing for offshore energy will require significant investment. Benefits accrued by the states and coastal communities, including the increase in jobs and wages and the subsequent multiplier effects, are smaller during the exploration stage and grow as development and production allow the industry to become established. Multiple lease sales would provide the assurance and incentive for Atlantic coastal states to improve their infrastructure and support services and the certainty for industry to invest resources to properly setup operations in the frontier area. Exploratory wells drilled in the first leased blocks can better define the extent of the hydrocarbon reserves and lead to further participation and investment in a second lease sale. After leases are awarded, it will take many more years before industry can begin production. This development period provides states and coastal communities time to prepare for the influx of new industries and workforce.

Onshore Infrastructure and Investment

A significant yet underpublicized component of offshore energy exploration and production is the onshore coastal infrastructure necessary to support OCS oil and gas activities. Safe and economic oil and gas production relies upon an extensive amount of coastal infrastructure including transportation and processing systems; ports and service bases; emergency services and oil spill response; electric power infrastructure; and waste management facilities that are equipped to handle the different types of waste generated by the offshore activities.

The BOEM outlined the energy infrastructure assets that would be required to support Mid-Atlantic OCS oil and gas production in a July 2014 report entitled, "Onshore Oil and Gas Infrastructure to Support Development in the Mid-Atlantic OCS Region." The study inventoried existing infrastructure in the Mid-Atlantic region and identified energy infrastructure assets that would need to be established or expanded if production were to occur off our shores. While North Carolina has the infrastructure in place to begin the exploration phase, the report concluded that a significant amount of investment would be needed to support oil and gas production in the Mid-Atlantic.

It is critically important that states receive the certainty necessary to budget and plan for future infrastructure needs. Onshore infrastructure such as roads, ports and processing systems require substantial investment and take many years to develop. I ask that the federal government assure states that offshore oil and gas production will become a reality so that we can prudently invest the substantial capital necessary to finance projects vital to offshore oil and gas operations.

States such as North Carolina are willing to make significant investments now, but we can't afford to potentially squander millions of dollars in preparation for a frontier industry that has the potential to be shut down at any time by the federal government. I request that the BOEM confirm the inclusion of at least one lease sale in the Mid-Atlantic so that states can be confident that their finite resources are spent wisely.

Offshore energy production offers many benefits to federal, state and local governments but also requires significant investment and planning to be conducted in a safe and economical manner. If we are serious about pursuing safe, responsible offshore energy development in the Atlantic, then the Obama Administration must provide states the certainty we require to start building the regulatory and structural foundation on which the industry can grow. I look forward to working with the BOEM to responsibly open the Atlantic to oil and gas development.

By unleashing the energy potential off our Atlantic coasts, we will move America one step closer to energy independence and create new opportunities for all of North Carolina. Thank you for the opportunity to testify on this important topic.

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