



North Carolina Department of Environment and Natural Resources

Beverly Eaves Perdue
Governor

Dee Freeman
Secretary

June 13, 2012

The Honorable Phil Berger
President Pro Tem
North Carolina Senate
Legislative Building, Room 2008
Raleigh, NC 27601-2808

The Honorable Thom Tillis, Speaker
North Carolina House of Representatives
Legislative Building, Room 2304
Raleigh, NC 27601-1096

Gentlemen:

At the direction of the North Carolina General Assembly, the Department of Environment and Natural Resources undertook a major study over the past year of the potential impacts of natural gas production by hydraulic fracturing. The Oil and Gas Study looked at the experience with hydraulic fracturing for natural gas in other states and specific conditions in the region of North Carolina that may have a shale gas resource. The final report, delivered to the General Assembly on May 1, 2012, concluded:

After reviewing other studies and experiences in oil and gas-producing states, DENR has concluded that information available to date suggests that production of natural gas by means of hydraulic fracturing can be done safely as long as the right protections are in place. Production of natural gas by means of hydraulic fracturing can only be done safely in North Carolina if the state adopts adequate safeguards in the form of regulatory standards specifically adapted to conditions in the state and invests sufficient resources in compliance and enforcement. Development of appropriate standards will require additional information on North Carolina's geology and hydrogeology to identify conditions under which hydraulic fracturing can be done without putting the state's water resources at risk.

Members of both bodies of the General Assembly have made a commitment to provide those safeguards before any drilling occurs in our state. Legislation to allow horizontal

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drilling and hydraulic fracturing has now moved out of the Senate. That legislation sets a very ambitious schedule for development of regulatory standards, but neither the House budget as adopted nor the Senate budget as initially proposed includes any new resources to do the work required under the bill.

As you know, our department - like others - has experienced significant budget cuts as the state has responded to the reduction in state revenues resulting from the economic downturn that began in 2007-2008. Since 2009, DENR's budget has been reduced by approximately 40%. That figure does not include transfers of programs from DENR to other departments of state government. Without additional resources, our department will not be able to provide the kind of customer service and compliance assistance that members of the General Assembly rightly expect of our existing programs and also take on the substantial new workload associated with research and development of standards for hydraulic fracturing.

The proposed state budgets produced by the House and Senate each require the Department to take resources from existing programs to fund this new work. If we do that, both delivery of those existing permitting and compliance programs and the work required to support this new program will suffer.

I would ask that you acknowledge the importance of this issue to the state by providing the new resources needed to do the work described in the North Carolina Oil and Gas Study Report. The state should not pursue natural gas development without also meeting its commitment to develop and implement a strong regulatory program.

Sincerely,

A handwritten signature in black ink that reads "Dee Freeman". The signature is written in a cursive, flowing style.

Dee Freeman

DAF/lj

cc: Gov. Beverly Perdue
Rep. Joe Hackney, House Minority Leader
Sen. Martin Nesbitt, Senate Minority Leader