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# ENERGY EXPLORATION OFF NORTH CAROLINA'S COAST



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**D**iscussions about potentially drilling for oil and natural gas in the Atlantic Ocean picked up significantly in 2015 after President Obama's administration decided waters off the shores of North Carolina, South Carolina, Georgia and Virginia could be slated for development. Below and in the following pages, four industry officials offer insights on the timeline for offshore energy projects, potential benefits and how risks are being mitigated.

## Where does this issue stand in terms of next steps with the federal government?

**JEFF VORBERGER:** We are essentially in year two of what is a 15 to 20 year process that ensures North Carolina's ability to shape outcomes. At this early evaluation and information gathering stage, no final decisions are made.

The federal government is currently undertaking two

preliminary steps: one that will allow us to ascertain the Atlantic's true oil and natural gas resource potential; and another to evaluate the possibility of holding an Atlantic lease sale in 2021.

Federal agencies are now reviewing permit applications for private companies to safely conduct modern seismic surveys. The new data will allow us to much more accurately predict resource potential, and thus inform decisions on possible future steps like leasing and drilling.

At the same time, the federal government is

evaluating the potential for an Atlantic lease sale in 2021. That evaluation began in earnest last year and includes robust environmental study and public and state review. This spring the federal government will decide to either drop the potential lease sale or continue the evaluation before making a final decision by early 2017.

If an Atlantic lease sale is ultimately scheduled for 2021, before moving forward it will be subject to its own exhaustive review process including environmental study, public comment, and state approval.

## INSIGHTful DISCUSSIONS

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"If we are fortunate enough to come to North Carolina, our industry will work to partner with and complement existing businesses, not detract from them."

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The same is true of any exploratory drilling activities, which are unlikely to commence until at least five years following the sale; as well as any production activities, which are another five years beyond that.

The process is transparent, collaborative and deliberate.

**ERIK MILITO:** Last year, the Bureau of Ocean Energy Management (BOEM) issued a Draft Proposed Program (DPP) for offshore leasing from 2017-2022 that called for lease sales in portions of the Atlantic, Gulf of Mexico, and Alaska.

No new areas or sales can be added to those included in the DPP, but BOEM can remove areas from consideration. In the coming months, likely before the end of March, BOEM will issue a Proposed Program (PP) and a draft environmental impact analysis (DEIA).

They will solicit comments and hold public meetings up and down the East Coast, including in the Wilmington area, on the PP and based on the feedback received they will issue a Final 2017-2022 Offshore Leasing Program.

**DAVID MCGOWAN:** Summarizing Jeff and Erik's points, the Obama Administration will make the final determination on whether to include the Atlantic OCS in the 2017-2022 leasing plan prior to the President leaving office in January 2017 and if the Atlantic stays in the final plan, the proposed lease sale would not occur until 2021.

### What has changed in the industry over the past five years to make it safer?

**MILITO:** In the last five years, the oil and natural gas industry has worked

both independently and with the regulators to enhance the safety of offshore operations. Immediately after the Deepwater Horizon incident (known in the industry as the Macondo incident), the U.S. oil and natural gas industry launched a comprehensive review of offshore safety measures and operations to identify potential improvements in spill prevention, intervention, and response capabilities.

Four industry panels were assembled to focus on the critical areas of equipment, operating practices, subsea well control, and spill response. The panels also worked with the U.S. Department of the Interior and the Presidential Oil Spill Commission to help form their recommendations to improve offshore safety and the regulatory framework.

Many industry standards were revised or newly created to cover areas that include well design, cementing, and operator/contractor interaction; blowout prevention equipment design, operation, repair and maintenance, and associated control systems; and subsea equipment interfaces with remotely-operated vehicles and well capping equipment. The industry also formed the Center for Offshore Safety to help improve the safety performance of America's offshore oil and natural gas industry and it continues to work with companies and the regulators to engrain safety culture into day-to-day operations.

The Marine Well Containment Company and the Helix Well Containment Group were founded to provide containment technology and response capabilities for the unique challenges of stopping the flow of oil thousands of feet below the water's surface. In the unlikely event that these services will be needed, these companies maintain quickly deployable systems that are designed to stem any uncontrolled flow of hydrocarbons from wellbores

located on the seafloor either by sealing the well or directing the fluids into storage vessels located on the surface of the water.

The oil and natural gas industry has also established a robust oil spill response research and development program that oversees more than 25 projects in eight areas: planning, mechanical recovery, dispersants, in-situ burning, remote sensing, shoreline protection, alternative technologies, and inland spill response. Oil spill response organizations have increased their capabilities by increasing training and keeping in inventory more equipment that is fit for specific purposes such as in-situ burning, and the industry has invested in international oil spill preparedness and response programs focused on improving industry operational capabilities in all parts of the world, including the Arctic.

The federal government responded to the Macondo incident by reorganizing its operations and focusing on four areas of regulatory policy: 1) blowout prevention, 2) drilling safety, 3) spill response and 4) well containment. The government has revised its regulations in these areas and in the process has incorporated a number of industry standards and guidelines into the regulations. As BOEM states in the DPP:

"While there is always the risk of accidents, BSEE and BOEM require numerous safeguards for OCS drilling and production operations, and these have been increased over the last few years. Requirements include additional subsea blow-out preventer testing, additional downhole mechanical barriers, well containment/capture systems, and greater emphasis on operational training and preparation." (DPP 6-37, 38)

**MCGOWAN:** Erik touched on many of the regulatory, technological and

operational changes that have occurred post-Macondo, which are obviously incredibly important. At the same time, perhaps one of most impactful developments has been a renewed focus on the "culture of safety".

In response to lessons learned in the past, our industry has made a tremendous commitment to ensuring that operations are conducted in a safe and responsible manner. The health and safety of our employees, as well as protection of the environment and public health remains the primary focus of everything we do.

**GAIL ADAMS-JACKSON:** Health, Safety, Security and Environment are paramount for the geophysical industry. The geophysical industry has demonstrated for nearly 50 years its ability to operate seismic and other geophysical exploration activities in an environmentally safe and responsible manner.

North Carolinians have heard numerous allegations from anti-oil and gas Non-governmental organizations (NGOs) that assert seismic surveys are harmful to marine life and threaten fishing and tourism. These allegations are simply false. In fact, there is no scientific support for their statements. NGO assertions are speculative and anecdotal at best, pointing to what could, might, or may occur, but has not occurred after 50 years of global use.

Many people may not know it, but seismic surveys are not new to the Atlantic OCS; they have been conducted periodically over past 50 years. The most recent survey was conducted from June 1 to July 6, 2015 with no reported injuries or significant disturbances to marine life. The Federal government affirms that sound from geophysical surveys has not been found to be injurious to marine life. In the March 4, 2014, Federal Register (Vol. 79, No. 42, Page 12166),

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the National Marine Fisheries Service (NMFS), stated, "To date, there is no evidence that serious injury, death or stranding by marine mammals can occur from exposure to [seismic air source] pulses, even in the case of large [source] arrays."

In its August 22, 2014 Science Notes, BOEM stated, "To date, there has been no documented scientific evidence of noise from [seismic air sources] used in geological and geophysical (G&G) seismic activities adversely affecting marine animal populations or coastal communities..."

The geophysical industry takes great care and consideration of potential impacts to the marine environment. Despite the lack of evidence that geophysical surveys pose a danger to marine life and because this is a priority, we implement mitigation measures to further reduce any potential impacts to marine mammals. Examples include the avoidance of important feeding and breeding areas, demarcation of exclusion zones around seismic operations, soft starts (gradual ramping up of a seismic sound source), and visual and acoustic monitoring.

The geophysical industry also supports scientific research by investing millions of dollars to fill any knowledge gaps that may exist in knowing how marine life interrelates to seismic and other geophysical operations. Industry continually monitors the effectiveness of the mitigation strategies it employs.

Research on effects has led to new NMFS criteria that show risks aren't as great as initially thought, and research on alternative technologies shows promise for new sound sources that may have less potential effect than current sound sources – the work is ongoing.

### Tell us more information about seismic surveys. Why is it important and what risks does the technology pose?

**ADAMS-JACKSON:** To carry out seismic surveys, marine vessels use acoustic arrays, a set of compressed air chambers, to create seismic pulses. The acoustic array is towed behind a seismic survey vessel and releases pressured air

into the water. The pulses are bounced off the layers of rock beneath the ocean floor. The returning sound waves are detected and recorded by hydrophones that are spaced out along a series of cables behind the vessel.

Seismologists then analyze the information, using computers, to visualize the features that make up the underground structure of the ocean floor. Both two-dimensional and three-dimensional surveys are used in the industry. Once the data is processed, geophysicists interpret it and integrate other geoscientific information to make assessments of where oil and gas reservoirs may be accumulated. The end product of all this work and technology is a graphic 2D or 3D representation of the earth's subsurface geologic structure. Based largely on this information, exploration companies will decide where (or if) to drill for oil and gas.

Seismic surveys are temporary and transitory and are the least intrusive and most cost-effective means to understanding where recoverable oil and gas resources likely exist. Modern seismic surveys are much like ultrasound technology—a non-invasive mapping technique built upon the simple sound wave.

No animals are injured and any behavioral disturbance is brief and fully recovered. The growing body of data supports this. Purported risks suggested by certain political groups have failed to materialize; they are highly speculative and it is irresponsible to mislead the public that such speculations are demonstrated facts, when they are not.

**VORBERGER:** Most folks don't realize that seismic research has been conducted in U.S. Atlantic waters for decades, including 2014 when a federally funded academic study utilizing seismic technology was conducted offshore North Carolina. We didn't see any mass stranding of marine mammals or dire consequences to the fishing industry as predicted by professional environmental organizations.

Likewise, in the 1970's and 1980's extensive seismic research was conducted from Maine to Florida for the oil and natural gas industry, again with no negative impacts to sea life or coastal industries. This safety record is true around the globe going back generations.

But the old Atlantic seismic data is

now technologically irrelevant when viewed against today's capabilities. Simply put, we can "see" offshore oil and gas deposits much better than we could thirty years ago. The public will also see the end results of any modern seismic research data, which is shared with the federal government, when the feds update their resource estimates accordingly.

Seismic research ensures future decisions on leasing and drilling are well-informed and not made blindly. It is in North Carolina's best interest to see this updated information, yet the professional environmental community uses baseless, unscientific claims in an effort to keep North Carolinians blindfolded.

**MCGOWAN:** Gail and Jeff are best positioned to speak to these issues, but from my perspective, seismic surveying is one of the most critical aspects of this overall broader issue of offshore exploration and development. It is also one of the aspects where the most mis-information is being circulated and there really needs to be a science based, rational approach to the process.



"Employment due to offshore oil and gas development in North Carolina is expected to reach over 55,000 jobs in 2035."

**ERIK MILITO**  
American Petroleum Institute

As Gail and Jeff both mention, seismic surveying is a safe technology, used around the world for 50 years or more and it enables vital understanding of what our resources are, the potential quantity of those resources and the location of them. Without this information the federal government is unable to determine which areas to offer for lease and what the value of those potential lease sites should be in order to maximize revenues for the country, states and local governments.

Seismic surveys not only help identify specific areas to investigate further through exploratory drilling, but

perhaps most importantly seismic rules many more areas out of consideration. In doing so, it lessens the potential environmental footprint of actual exploratory and production drilling. In addition, even if no lease sales are held and no drilling is allowed under the current plan, it is imperative from an energy security and national security perspective that we know the location and potential quantity of our resources in the event that we do need to access them in the future.

### What would be the benefits for North Carolina if an offshore lease sale occurs?

**MCGOWAN:** Potential benefits to our state from offshore oil and natural gas activity are numerous, and stretch far beyond a singular lease sale event. In terms of economic gains from the physical processes of locating and producing offshore resources over decades, various economic studies point to varying estimates according to their assumptions.

Rather than intending to predict future federal policy, these studies represent a good-faith attempt to quantify the real-life benefits within reach. The bottom line is that a robust, long-term commitment to harnessing our offshore Atlantic potential could result in North Carolina jobs measured in the tens of thousands and state

investment and economic growth in the billions of dollars. And with increasing Congressional support for state and local revenue sharing legislation, the very real potential exists for billions more dollars.

North Carolina would also diversify our employer base in a rapidly changing economy, through jobs that provide excellent pay and benefits. It is important to note again that these potential benefits are decades away, occurring only after the thoughtful public and federal review process discussed previously.

**MILITO:** API commissioned Quest

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Resources to prepare an economic study showing what would be possible if the federal government embraced a true "all-of-the-above" energy policy and fully developed the Atlantic offshore oil and natural gas resources. The scenario considered includes regularly scheduled lease sales in the Atlantic, timely permit issuance allowing full development of the resource base, and assumes that Atlantic coastal states would share federal offshore revenues in the same way Gulf of Mexico coastal states do.

North Carolina would benefit from the large amount of project activity expected off the state due to the large potential reserves in nearby waters and a relatively long coastline. North Carolina's extensive port infrastructure at Morehead City and Wilmington is expected to be heavily involved in offshore oil and natural gas activities.

**VORBERGER:** Perhaps most importantly, North Carolina would benefit from the energy security that offshore oil and natural gas development would provide. According to the US Energy Information Administration, the state currently consumes four times as much energy as it produces.

While the use of renewable energy sources like solar and wind are helping cut into that deficit, there is and will continue to be a significant need for traditional fuels like natural gas to balance the intermittency of renewables. Through developing offshore resources, North Carolina would have access to affordable and reliable fuels to meet growing energy demand.

### What are the economic opportunities associated with energy exploration and how will it impact us locally?

**MILITO:** Under the scenario modeled by Quest Resources, North Carolina would see the highest levels of spending, employment and contributions to its economy:

- Annual spending on Atlantic OCS oil and gas exploration and development

activity in North Carolina could reach nearly \$3.3 billion in 2035.

- Employment due to offshore oil and gas development in North Carolina is expected to reach over 55,000 jobs in 2035, with direct employment of over 20,000 jobs and indirect and induced employment of over 35,000 jobs.

- With revenue sharing legislation enacted, North Carolina state government revenues from bonuses, rents and royalties could reach \$885 million per year by 2035 and the cumulative effects on the state budget from 2017 to 2035 are projected to be nearly \$4 billion.

Of course, the scenario modeled is not the current path chosen by the Administration. However, the results should not be readily dismissed. State and local government officials recognize the potential offshore North Carolina and have called for the federal government to allow North Carolina to seize the economic opportunities available through increased exploration and development. While not totally lost, these economic opportunities are limited by current policies and may never be realized if proposed Atlantic leasing is drastically scaled back or eliminated altogether.

"If we want to live in an energy-secure world going forward, now is the time to assess and plan exactly how to do so."

DAVID MCGOWAN

North Carolina Petroleum Council

**MCGOWAN:** The offshore oil and natural gas industry is far more than just a few major oil companies that grab headlines and fill sound bites on news programs. We undertake not only drilling and production and seismic research, but also include all the other supply and service companies along the vendor chain. It is these companies that will require local employees, facilities and operations.

Many of these sectors are already represented along the North Carolina coast, including towing and tug

operators, marine fabrication, marine transportation, shipyards, navigation & positioning, telecommunications and engineering. The state port facilities in Wilmington and Morehead City stand to benefit greatly from our industry.

Cape Fear Community College is already placing students into our industry via its Marine Technology department and is well positioned to expand those offerings so graduates could remain close to home. And perhaps the greatest opportunity for North Carolina is to shape how our industry looks and feels in communities, using modern technology and in alignment with our values, priorities and specifications.

What works for the Gulf of Mexico states may not work for North Carolina. Our industry understands and embraces that dynamic.

### What are the risks of offshore drilling and how are those risks mitigated?

**MCGOWAN:** There are risks associated with offshore development, but let's put them in perspective.

In the immediate Wilmington area, we already have numerous infrastructure projects, facilities and economic activity that present some degree of risk to the community.

However, those risks are mitigated to the absolute greatest extent possible using the best available technology, processes and prevention techniques.

The same can be said for the manner in which offshore oil and natural gas development would take place in our region. The industry takes our corporate citizenship seriously and we can and do commit to ensuring that every possible protection is put in place to avoid an incident. However, in the very unlikely event an accident or spill were to occur, we also know that industry and government now have the resources on hand to properly respond in a timely fashion.

In response to an earlier question,

Erik mentioned the two companies that were formed post-Macondo to respond to "911" calls from the industry. Helix Well Containment Group and Marine Well Containment Company now have the proper intervention equipment, trained professionals and logistics capabilities strategically staged in the vicinity of offshore operations to respond immediately in the very unlikely event their services are necessary.

Additionally, the Center for Offshore Safety, also formed as a result of lessons learned from Macondo, conducts periodic third-party audits of offshore operators to ensure they have the processes, systems and equipment necessary to conduct safe offshore exploration and development activities.

All of these advancements, in conjunction with robust federal regulations that have been strengthened dramatically since 2010, make offshore operations far safer than they have ever been.

**MILITO:** More than 99.9995% of the oil produced, refined, stored and/or transported in the United States reaches its destination safely without incident. However, we unfortunately saw one of the greatest risks associated drilling offshore with the Macondo incident in 2010.

The industry goes to great lengths to ensure that our operations are safe and environmentally sound. Risk is mitigated through extensive training and the use of industry standards governing well design and construction.

There are multiple barriers, such as blowout preventers designed and operated in accordance with industry standards that are installed in each well to control a blowout. Industry standards and training are the backbone of industry's risk mitigation efforts and are relied upon and supplemented as the basis for offshore regulations.

As BOEM noted in its DPP:

Risk management is the foundation upon which BOEM and BSEE regulate and enforce standards. The risk management strategies employed by BOEM, BSEE, and industry serve as an integral component of a safety culture designed to integrate technological and human elements.

This integration is required to ensure safe and environmentally sound OCS operations. Both risk management and BOEM and BSEE regulatory oversight greatly reduce the risk of a catastrophic





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discharge event.” (DPP 6-37, 38).

## How will this industry work in concert with other industries along our coastline and our tourism industry?

**MILITO:** With respect to any military activities in the Atlantic, you can look to the Gulf of Mexico to see how industry works with the Department of the Interior and Department of Defense to accommodate multiple users of the ocean. Like the Atlantic, the Gulf of Mexico is used by the U.S. Department of Defense to conduct various mission operations, including air-to-air gunnery, rocket and missile research and testing, sonar buoy operations, pilot training, and aircraft carrier operations.

Leases in these military test and training areas contain stipulations that require special considerations by lessees to accommodate military operations, including the right of the military to suspend oil and gas operations, require evacuation of personnel, and require the development of a formal Operating Agreement between the lessee and the military.

This arrangement ensures that exploration and development activities can be conducted predictably, orderly, and safely without interfering with scheduled military activities or jeopardizing the national defense mission.

**VORBERGER:** In many ways, all the concerns with hosting our industry come back to this central question — and understandably so.

The lifeblood of coastal North Carolina's economy is tourism. Countless families, including my own, enjoy regular visits to the Outer Banks and Crystal Coast and owe an enduring debt of gratitude to the local residents who graciously share your communities with us.

The pride you feel for your home is not unlike that felt by residents along the Louisiana bayou, or in Long Beach, Mississippi and Orange Beach, Alabama. These and all Gulf coast communities share North Carolina's reliance on

tourism and commercial and recreational fishing to drive their economies.

Alabama is proud of their “turquoise waters and sugar-white sands” as highlighted on the state's official travel website. But coastal Alabama is also able to brag about a second economic engine: offshore oil and natural gas. And since 1967 and every year after, Morgan City hosts the Louisiana Shrimp and Petroleum Festival to “recognize the working men and women of both the seafood and petroleum industries, which are the economic lifeblood of the area.”

In the U.S. Gulf region - as well as nations like Canada, Mexico, Brazil, Norway, the UK, and Australia - our industry partners with other ocean-dependent industries in coastal communities to ensure compatibility and cooperation. If we are fortunate enough to come to North Carolina, our industry will work to partner with and complement existing businesses, not detract from them.

**MCGOWAN:** As a Wilmington native, and someone who still maintains significant ties to the area, I know first-hand how important tourism and recreation are to the overall economy of this community and to the quality of life we all enjoy about coastal North Carolina. I want my children to experience the same joys of growing up at the coast that I did and I firmly believe that offshore development is compatible with our existing tourism and recreation based economy.

In fact, I believe they can complement one another quite well, with offshore development helping to provide necessary diversity to our region's economy. For instance, as most Wilmington area fishermen & women know, Frying Pan Tower is one of the best spots for offshore fishing in our region.

The hardened structure of the tower provides much needed habitat for all kinds of species up and down the food chain but it is the only structure of this kind in the area. Offshore oil and gas facilities, located in excess of 50 miles off the North Carolina coast per proposed federal requirements, could significantly enhance the commercial and recreational fishing opportunities in our area.

Another example of the industry's partnership and co-existence with

traditional coastal economic engines is the Morgan City, LA Shrimp & Petroleum Festival which Jeff mentions above. Much like our own Azalea Festival, this event celebrates the Gulf Coast region's heritage and the mutually beneficial relationship between commercial fishing and oil and natural gas development.

Both industries sustain the economy of southern Louisiana and do so while working side by side. The same type of relationship is possible here on the east coast as well, but it is up to our industry as the potential newcomer to the area, to demonstrate that through our actions and our commitment to safety and environmental responsibility.

**ADAMS-JACKSON:** Jeff and David talked about the overall industry; I'm speaking specific to seismic. Seismic survey activities, commercial and recreational fishing, tourism and marine life can and do coexist successfully around the globe.

The Gulf of Mexico is an excellent example of these relationships. The region has what is considered to be some of the best seafood and most productive fisheries in the world, some of the best recreational fishing and tourism economy of \$20 billion per year. (Visit [www.epa.gov/gmpo/about/facts.html](http://www.epa.gov/gmpo/about/facts.html).) All the while seismic vessels are surveying nearly on a daily basis.

Before surveys get underway, geophysical companies engage in consultation with the various ocean users to ensure open continued communication about our operations.

## What is the timeline and next steps?

**MILITO:** We expect that the Bureau of Ocean Energy Management will make a decision in late March or early April on what offshore areas will be considered for leasing between 2017 and 2022 when they issue the Proposed Outer Continental Shelf (OCS) Leasing Program.

Once issued BOEM will solicit comments from the public, elected officials and other government agencies and hold public meetings to gather further input. Based on the feedback received, BOEM will issue a 2017-2022

Final OCS Leasing Program by the end of 2016.

**MCGOWAN:** While the specific steps of the process and timeline Erik shared above are important, what is perhaps most important is that citizens understand the big picture.

If the first Atlantic lease sale is held in 2021 as it is currently proposed, first production of oil and natural gas would likely not occur until around 2035. Obviously, this is a very long and deliberate process but that is precisely why we believe it is so important for the process to continue moving forward.

We don't know for sure what our energy demands will be in 20 years and we certainly don't know what the price of oil and natural gas will be at that time. What we do know however is that according to the EIA, even under the most aggressive development scenario for renewable energy, fossil fuels like oil and natural gas will continue providing the majority of our energy needs for at least the next 40-50 years.

If we want to live in an energy-secure world going forward, where we meet our energy needs through our own natural and renewable resources, now is the time to assess and plan exactly how to do so.

**VORBERGER:** As noted previously, any forecasts of potential impacts from drilling and producing oil and natural gas is putting the cart far ahead of the horse, as those activities would take place in future decades.

That is not to say that local communities shouldn't be asking tough questions of our industry now. We are eager to have those conversations and ensure that future decisions are based on science and facts rather than speculation and hyperbole.

This is a very important year in determining the future of offshore energy for North Carolina. First, the federal government will decide whether to allow us to see behind the curtain and learn the Atlantic's true resource potential via modern seismic research. Second, the feds will decide whether to continue evaluating a possible Atlantic lease sale in 2021.

At this early stage, our hope is that North Carolinians agree we should at least continue the conversation and learn more from each other, rather than turning on our heels and walking away.