



ARKANSAS **ENERGY** REPORT

April 2016



Business matters.

Editor's note: The Arkansas Energy Report is Sponsored by MISO & Arkansas State Chamber of Commerce.



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Arkansas' energy picture in recent months is one of low pump prices, a significant and unfortunate decline in natural gas production in the Fayetteville Shale Play, and a decline in nuclear electric production.

Following are data on various energy sectors. (*Talk Business & Politics makes every effort to use information that is current at time of posting the Arkansas Energy Report.*)

Arkansas' Energy Profile

"Arkansas Quick Facts" from the U.S. Energy Information Administration.

- Marketed natural gas production in Arkansas experienced a nearly six-fold increase between 2005 and 2014. In 2014 it accounted for 4.1% of U.S. marketed production.
- Arkansas, the top rice-producing state as of 2014, typically experiences an increase in natural gas consumption in the industrial sector (which includes agriculture) in the fall when natural gas is used to dry rice after harvest.
- Coal-fired electric power plants in Arkansas supplied over half (54%) of the state's electricity in 2014 and relied on coal deliveries via rail-car from Wyoming.
- Independent power producers provided over 18% of net electricity generation in Arkansas in 2014.
- Biomass supplied all of Arkansas' non-hydroelectric renewable energy resources for utility-scale electricity generation in 2014.
- Electricity in Arkansas produced by nuclear power totaled 12.53 million megawatt hours year-to-date through November 2015, down 4.5% compared to the same period in 2014.



Arkansas rig count remains at zero as Southwestern reports \$1.13 billion 1Q loss

By Talk Business & Politics Staff

Arkansas' rig count remained at zero through the first four months of 2016 as the Southwestern Energy and other Fayetteville Shale drillers try to afloat as scant drilling activity makes it hard for oil and gas companies to generate capital.

Still, the Arkansas shale play played a major role in keeping Southwestern Energy above water with continued output from wells that were put into production before the Houston-based oil and gas company halted its drilling operations at the end of 2016.

According to Southwestern Energy's first quarter earnings report, in which the former Fayetteville-based energy company reported a loss of \$1.13 billion, net production totaled 103 billion cubic feet (Bcf) from the Arkansas play.

According to the Haynes and Boone Oil Patch Bankruptcy Monitor, released April 16, there are now 63 North American oil and gas producers that have filed for bankruptcy since the beginning of 2015, up from 51 in January. These bankruptcies, including Chapter 7, Chapter 11, Chapter 15, and Canadian cases, involve approximately \$22.5 billion in cumulative secured and unsecured debt.

The biggest name on that list is Samson Resources Corp., the privately-held Tulsa oil and gas giant that racked up a total of \$4.3 billion before crude oil prices came crashing down. Samson's Chapter 11 agreement provides for a debt-for-equity conversion and a \$450 million to \$485 million new money investment. The company is now seeking confirmation of an alternative restructuring plan, and the bankruptcy court has extended the exclusive period for the company to file such plan to July 14, 2016.

Arkansas' rig count dwindled to one in the last week of December after Southwestern announced it was taking its final two rigs offline until natural gas prices turned around. The number of drilling rigs in Arkansas peak at 60 on July 11, 2008, when Fayetteville Shale development was in full swing, Baker Hughes statistics show.

As of April 29, there were a mere 420 drilling rigs in operation across the U.S., down eleven from the previous week, according to Baker Hughes weekly rig count. Of that total, the number oil rigs declined by 11 and natural gas rigs fell by one to 87. The U.S. rig count is now at the lowest level since Baker Hughes began keeping such data in the 1940s.

Overall, Baker Hughes reported that the number of U.S. oil and gas rigs is down 485 rigs from 905 during the same period of 2015. The U.S. Offshore rig count is 25, down one from last week, and down 9 rigs year over year.

The U.S. rig count is now at the lowest level since Baker Hughes began keeping such data in the 1940s.

Rig Count by State (Top Ten, as of April 29)

Texas: **204**
Oklahoma: **61**
Louisiana: **47**
North Dakota: **29**
Pennsylvania: **17**
Colorado: **17**
New Mexico: **16**
W. Virginia: **12**
Ohio: **10**
Alaska: **9**
Wyoming: **9**
Kansas: **6**



Arkansas pump prices near \$2 mark, 20 cents below U.S. average, 37 cents cheaper than a year ago

By Talk Business & Politics Staff

After seeing gas prices fall below \$1.30 in some parts of the state at the beginning of the year, Arkansas and U.S. motorists are getting acclimated to filling up their tanks around the \$2 mark before the official summer driving season kicks off on Memorial Day.

According to AAA, Americans paid the cheapest quarterly gas prices in 12 years during the first three months of 2016, and have saved nearly \$10 billion on gas so far this year compared to the same period in 2015. The national average price of gas during the first quarter was \$1.86 per gallon, making it the cheapest quarter for gasoline since January-March 2004. Gas prices are expected to remain relatively low compared to recent years.

A recent report by AAA shows that Americans have saved nearly \$10 billion, or about 13%, on gasoline expenditures so far this year compared to the same period in 2015, which is about \$45 per licensed driver. This year's savings are in addition to the \$120 billion that Americans saved over the course of 2015 compared to the previous year, which was about \$565 per licensed driver.

Today's gas prices, which averaged \$2.19 on April 29, are even more significant when compared to a few years ago, AAA say. For example, the most expensive first quarter ever was in 2012, when prices averaged \$3.58 per gallon. In comparison to that quarter, Americans have saved about \$50 billion or \$240 per licensed driver during the first three months this year.

Arkansas motorists are paying on average about \$1.98 per gallon, up seven cents from a week ago. Still, pump prices in the Natural State are 37 cents below year ago levels, when drivers were paying \$2.35 per gasoline for regular unleaded, AAA data shows.

The average Arkansas metro prices for regular unleaded and diesel according to the AAA Daily Fuel Gauge Report as of April 29.

Fort Smith

\$1.89/gallon

\$1.99/gallon

Little Rock

\$1.98/gallon

\$2.02/gallon

Northwest Arkansas

\$1.91/gallon

\$1.95/gallon

Texarkana

\$2.00/gallon

\$2.06/gallon

Pine Bluff

\$2.01/gallon

\$2.03/gallon



**REGULAR
DIESEL**

Arkansas yearly severance tax collections on path to fall to lowest level since 2009

By Talk Business & Politics Staff

Monthly severance collections for the first three months of 2016 has put Arkansas on the path to see the lowest level of tax revenues from the sales of marketed natural gas since the Arkansas General Assembly raised the levy in 2009.

And the end of March, severance tax collections in Arkansas were just over \$27 million. At that same rate, which is an average of \$3 million in revenue per month, the state would close the fiscal year that ends June 30, 2016 with only \$36 million in revenue from marketed natural gas sales.

The severance tax data is compiled by DFA's Revenue Office using monthly tax reports filed by producers. Severance tax amounts reported by the state's Revenue Office are based on the "revenue month, not the report month." In 2009, the Arkansas Legislature raised the levy on natural gas production, applying tax rates of 1.25%, 1.5%, and 5% depending on the well classification by the Arkansas Oil and Gas Commission.

The major reason for the decline in revenue collection is that the three largest drillers in the Fayetteville Shale – Southwestern Energy, BHP Billiton and ExxonMobil – have taken their drilling rigs offline as the price of natural gas has fallen below the industry's break even point, which for most oil and gas companies is about \$3 per million British thermal units (MMBtu).

Since the new severance tax law came into effect, revenue has risen consistently with the exception of a few dips since the first year of collections in 2010, which tallies came in at \$44.8 million. Overall, Arkansas ended fiscal year 2015 with the highest severance tax collections for natural gas since the state began keeping such records.

Severance tax revenue rose slightly to \$78.6 million in fiscal 2015, compared to collections of \$77.3 million in fiscal 2014, state revenue data shows. Since then, fiscal collections were \$55.1 million in 2011, \$51.8 million in 2012, and \$50.6 million in 2013.

Severance collections were \$2.08 million in January, \$1.96 million in February and \$2.16 million in March, according to data compiled

by the state Department of Finance and Administration (DFA). February tax collections were also the lowest monthly level since the legislature upped the severance levy to capture growing revenue from the Fayetteville Shale play.



Severance tax revenue collected on marketed natural gas sales through March 2016.

Mar. 31, 2015	Mar. 31, 2016
\$61.9 million	\$27 million

-56.4%↓

Crude oil prices rise and contango narrows, but high stockpile constrain price hikes

By Talk Business & Politics Staff

Global crude oil prices in April rose in response to near-term supply concerns and a more positive economic outlook that suggests rising demand for crude oil, according to the U.S. Energy Information Administration.

Last week, Secretary General Abdalla El-Badri said the global crude oil market cartel needs to return to a more “balanced situation” where energy commodity investors feel more comfortable and confident in making the necessary long-term investments, and not allow supply to outstrip demand. But OPEC’s bid to take control of the market from U.S. shale producers appear to have failed as global output increased this week, according to some Wall Street analysts.

The stronger crude oil demand outlook is likely the main reason for higher crude prices across the entire futures curve, whereas the near-term supply concerns are putting additional upward pressure on prices for near-term delivery.

As a result, the futures curve for crude oil has both shifted since the beginning of the month and flattened out. The flatter futures curve means that the market’s contango (when prices for near-term deliveries are lower than prices for longer-dated deliveries) has narrowed significantly for North Sea Brent and West Texas Intermediate (WTI), reducing the incentive to store crude oil.

Following are price points for select energy commodities as of April 22.



CRUDE OIL (NYMEX):

\$46.03

▲ up 1.6%



NATURAL GAS (NYMEX):

\$2.08 (per million Btu)

▼ down 3.5%



COAL (NYMEX):

\$43.50 (per ton)

unchanged



GASOLINE (RBOB, essentially the raw commodity):

New York **\$1.57 cents** per gallon

Gulf Coast **\$1.49 cents** per gallon

Los Angeles **\$1.62 cents** per gallon

Natural gas top producer of electricity, wind power up 35.1% in latest report

By Talk Business & Politics Staff

The amount of U.S. electricity produced by coal in February 2016 – the most recent federal data available – fell 27% compared to February 2015, while natural gas produced electricity rose 7.7% and wind power was up 35.1%.

U.S. Energy Information Administration reporting for February (released April 28), shows that coal generated 92,900 thousand megawatt hours during the month, well below the 127,152 thousand megawatt hours in February 2016. The reduction is another clear signal of efforts by the Obama Administration to reduce the use of coal in power production.

The reduction put natural gas in the top spot with respect to electric power production, generating 98,368 thousand megawatt hours in February compared to 91,357 thousand megawatt hours in February 2015.

Nuclear power, the third largest sector for electricity production, generated 65,638 thousand megawatt hours in February, up 3.4% compared to February 2015.

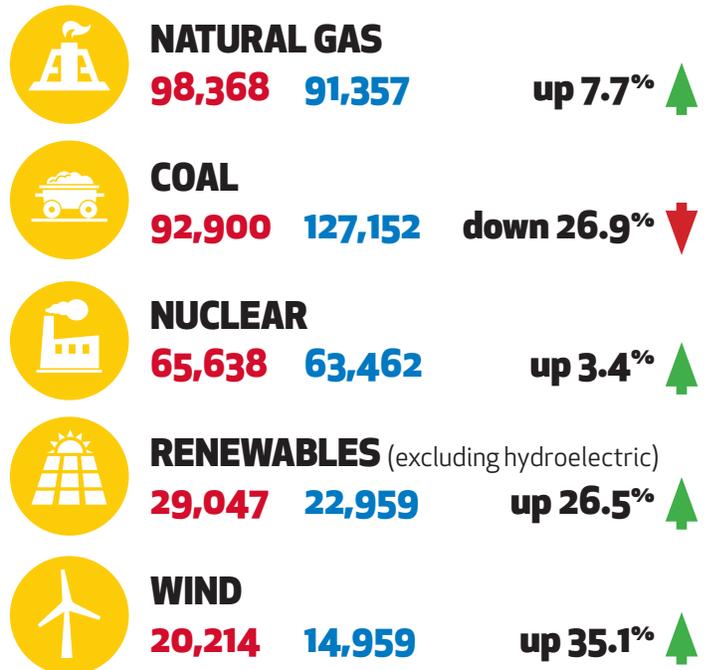
Total electricity produced in February was 314,079 thousand megawatt hours, down 6.4% compared to February 2015.

Sales of electricity also fell in February, Sales to all sectors – residential, commercial, industrial, and transportation – totaled 294,194 million kilowatt hours, down 3.4% compared to February 2015. Of the large categories, sales fell 6.4% in residential, fell 2.1% in commercial and down 0.3% in industrial.

The top five U.S. electric power production sources

(U.S. Energy Information Administration, April 28, 2016 report; numbers in thousand megawatt hours)

Feb. 2016 vs. Feb. 2015





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