



ARKANSAS **ENERGY** REPORT

June 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.



U.S. rig count rises on higher oil prices, '\$50 a barrel is new norm'

By Talk Business & Politics Staff

For the first time in 2016, there was an increase in the number of drilling rigs operating in the U.S. as international crude prices caused gave some hope to shale oil producers looking to eke out a few pennies of profit this year.

For the period ending June 3, the U.S. rig count rose by 4 rigs from last week's tally of 408. The number of oil rigs jumped by nine to 325, while natural gas rigs continued to slide, falling by five to 82. Miscellaneous rigs remained at one. A year ago, there 868 rigs in operating in the U.S., according to Baker Hughes weekly rig count.

That rise in the number of oil rigs operating in the U.S. is mainly due to rising crude oil prices, which have lifted above \$50 dollars a barrel even after the Organization of the Petroleum Exporting Countries (OPEC) failed attempted last meet to agree on a new production ceiling for crude oil. That decision by the Middle East-focused cartel, caused one highly-respected Wall Street analyst to say OPEC influence on international crude oil markets is now minimal.

"OPEC is finished. OPEC is over," Fadel Gheit, senior oil and gas analyst at New York City-based Oppenheimer & Co., said in an interview with CNBC's Power Lunch. "Shale production has completely changed the way we look at energy and it's not going to change. The fact of the matter is that OPEC and Saudi Arabia are no longer the swing producers they were only two years ago."

Oil in recent weeks rose above \$50 a barrel, but on Friday (June 10) was trending lower because of the rising dollar and concerns that the oil supply was not shrinking as fast as some had thought.

For the year, Arkansas' rig count remained at zero through the first five months of 2016 as all drilling activity in the Fayetteville Shale and other smaller plays across the state have come to a halt, Baker Hughes data shows. Still, the unconventional Arkansas shale play continues to help Southwestern Energy and other natural gas producers stay above water with continued output from wells that were put into production before those companies halted its drilling operations at the end of 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.

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 June 3)

Texas: **176**
Oklahoma: **57**
Louisiana: **47**
North Dakota: **22**
New Mexico: **20**
Colorado: **16**
Pennsylvania: **14**
Ohio: **11**
W. Virginia: **10**
Alaska: **8**
Wyoming: **7**
California: **6**



Gas prices continue post-Memorial Day rise; Arkansas average of \$2.12 at the pump

By Talk Business & Politics Staff

Gas prices in Arkansas and the U.S. continued to move higher following the annual Memorial Day ramp up by retailers to kick off the beginning of the nation's summer driving season. On Monday (June 6), gas prices across the U.S. were averaging \$2.36 a gallon for regular unleaded, up 14 cents from a month ago.

Still, the 2016 summer driving season was officially underway at the end of May with drivers paying the lowest gas prices for this time of year in more than a decade. Gas prices during the Memorial Day holiday were the cheapest since 2005 and were down 42 cents per gallon versus last year's holiday.

According to AAA, this year's summer driving season is expected to be characterized by higher-than-normal gasoline demand, and demand remains on pace to test record levels reached in 2007. Refineries nationwide are working in preparation for what is likely to be record breaking season and if they are able to keep pace, pump prices should remain relatively lower.

A wildcard for gas prices in the coming months is the Atlantic Hurricane Season, which runs from June 1 – Nov. 30. According to the National Oceanic and Atmospheric Administration's Climate Prediction Center, this year's season will likely be near normal, which means of the 10-16 named storms, four to eight could become hurricanes. Should any of these severe storms or hurricanes reach landfall, production, refining and distribution could be impacted, resulting in higher fuel prices.

The Gulf Coast region, which includes Arkansas, remains home to the nation's least expensive markets for retail gasoline. The nation's top five least expensive markets are: Mississippi (\$2.10), Texas (\$2.10), South Carolina (\$2.11), Arkansas (\$2.12) and Louisiana (\$2.12).

The average Arkansas metro prices for regular unleaded and diesel according to the AAA Daily Fuel Gauge.

Fort Smith

\$2.04/gallon

\$2.15/gallon

Little Rock

\$2.12/gallon

\$2.18/gallon

Northwest Arkansas

\$2.06/gallon

\$2.12/gallon

Texarkana

\$2.14/gallon

\$2.20/gallon

Pine Bluff

\$2.17/gallon

\$2.22/gallon



**REGULAR
DIESEL**

Arkansas severance tax collections headed for sharp decline in fiscal year

By Talk Business & Politics Staff

With only one month left in Arkansas' fiscal reporting year, severance tax revenues from the sales of marketed natural gas in May fell to their lowest level since the legislature upped the severance levy to capture growing revenue from the Fayetteville Shale play.

And according to monthly data collected by the Arkansas Department of Finance & Administration, tax revenues from natural gas sales are poised to fall more than 50% from last year's peak tax bounty of \$78.6 million.

At the end of May, severance tax collections in Arkansas for fiscal 2016 were only at \$30.5 million. At that same rate, which is an average of \$2.77 million in revenue per month, the state would close the fiscal year that ends June 30, 2016 with only \$33.7 million in revenue from marketed natural gas sales.

In fiscal 2015, Arkansas recorded its highest yearly severance tax collections at \$78.6 million, slightly better than \$77.3 million in the previous year. Arkansas severance tax collections have not fallen below \$50 million since 2010, a year after the Arkansas Legislature raised the levy on natural gas production across the state just as production in the Fayetteville Shale reached a peak.

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, lawmakers raised the tax on sales of 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.

Since the new severance tax law came into effect, revenue rose consistently with the exception of a few dips since the first year of collections in 2010, when 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.

Before this month, the lowest severance collections in fiscal 2016 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.



Arkansas severance tax revenue collected on marketed natural gas sales through May 2016.

May 31, 2015	May 31, 2016
\$69.5	\$30.5
million	million

-56.1% ↓

Rail shipments of crude oil, ethanol and biodiesel on the decline, EIA says

By Talk Business & Politics Staff

Although pipelines, tankers, and barges are widely used to transport liquid fuels within the United States, several types of liquid fuels are transported by rail in large volumes. The U.S. Energy Information Administration recently expanded its rail data for crude oil, ethanol and biodiesel to provide monthly data going back to January 2010.

While crude oil is primarily transported through pipelines, the amount of crude oil shipped by rail had increased from 2010 to 2014 as domestic crude oil production exceeded pipeline takeaway capacity for crude oil. After reaching more than one million barrels per day in 2014, crude-by-rail volumes declined slightly in 2015.

The origins, destinations, and volumes of ethanol and biodiesel shipped by rail have not changed much over the past six years. Almost all ethanol and biodiesel ends up in the motor gasoline or diesel pools, respectively.

Taken together, rail movements of crude oil, ethanol, and biodiesel in the first three months of 2016 averaged 1.1 million b/d, 19% lower than the 2013–15 average. Ethanol and biodiesel rail shipments have been relatively flat, so the recent overall decline in transport of liquid fuels by rail reflects reduced rail shipments of crude oil.

U.S. crude oil stocks remained at historic high levels for this time of the year, according to the weekly inventory reported released on May 27 by the U.S. Energy Information Administration. Total U.S. commercial crude oil inventories fell slightly to 535.7 million barrels, 1.7 million barrels less than the previous week. U.S. crude oil stockpiles exceeded 500 million barrels for the first time in February.

U.S. crude oil refinery inputs averaged 16.2 million barrels per day during the week ending May 27, 2016, 73,000 barrels per day less than the previous week's average. Refineries operated at 89.8% of their operable capacity last week. Gasoline production decreased last week, averaging 9.9 million barrels per day. Distillate fuel production decreased last week, averaging over 4.8 million barrels per day.

Price points for U.S. energy commodity prices at the end of May 27, 2016:



CRUDE OIL (NYMEX):

\$48.69

▼ down 0.9%



NATURAL GAS (NYMEX):

\$2.40 (per million Btu)

▼ down 0.3%



COAL (NYMEX):

\$36.63 (per ton)

unchanged



GASOLINE (RBOB, essentially the raw commodity):

New York **\$1.59 cents** per gallon

Gulf Coast **\$1.59 cents** per gallon

Los Angeles **\$1.60 cents** per gallon

Coal production falls to levels not seen since 1981, natural gas still leads in electricity production

By Talk Business & Politics Staff

Coal production in the first three months of 2016 was 173 million short tons (MMst), the lowest quarterly level in the United States since a major coal strike in the second quarter of 1981, according to a June 10 report from the U.S. Energy Information Administration.

Among the supply regions, coal production from the Powder River Basin in Montana and Wyoming declined the most in tonnage and percentage since the previous quarter.

Electricity generation accounts for more than 90% of domestic coal use. In addition to complying with environmental regulations and adapting to slower growth in electricity demand, coal-fired generators also are competing with natural gas-fired electricity generation during a time of historically low natural gas prices.

A 17% decrease in coal production from the previous quarter marked the largest quarter-over-quarter decline since the fourth quarter of 1984. Above-normal temperatures during the winter of 2015–16 were a key reason for the large decrease in coal production during the first three months of 2016. Throughout the fourth quarter of 2015, electric power plants received more coal than they consumed, leading to a net increase of 34 MMst in coal stockpiles, the highest fourth-quarter net increase on record.

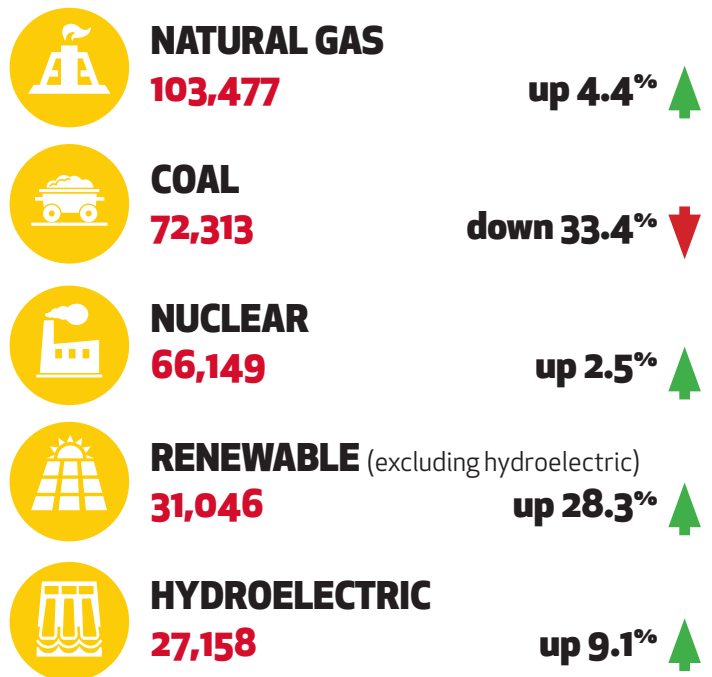
High coal inventories encouraged electric power plants to consume coal from their stockpiles in the beginning of 2016, resulting in lower new coal orders.

For the period ending March 2016 (the most recent EIA data available), natural gas produced 103,477 thousand megawatt hours of electricity, up 4.4% compared to March 2015. Coal was second at 72,313 thousand megawatt hours, down 33.4% compared to March 2015.

Overall, electric production was 303,837 thousand megawatt hours, down 6.4% compared to March 2015.

Top five U.S. electric power sources

(EIA, March 2016; numbers in thousand megawatt hours)





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