



ARKANSAS **ENERGY** REPORT

July 2016



Business matters.

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



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Key headlines from the energy industry as reported by Talk Business & Politics.

- **Magellan's Fort Smith-to-Little Rock pipeline now in operation (July 13)**

Central Arkansas's fuel market received a big boost after the Fourth of July holiday when Tulsa-based Magellan Midstream Partners quietly began operation of its much-anticipated pipeline project that will deliver up to 75,000 barrels per day of gasoline, diesel fuel and jet fuel into the state's main transportation hub.

Magellan spokesman Bruce Heine confirmed July 13 that the company has commenced service on the 200-mile, 12-inch diameter pipeline capable of transporting fuel processed at Gulf Coast and Midwest refineries into the state across the Arkansas River Valley east to Little Rock.

- **Arkansas drops out of top 10 producing natural gas states (July 5)**

Arkansas is no longer among the top ten natural gas producing states as the recent drilling and sales decline in the Fayetteville Shale and the industry's shift to more lucrative to oil rich shale plays has caused production in the state to decline nearly 20% over the past year.

The good news, however, is that natural gas prices toughed a one-year high just ahead of the Fourth of July holiday, offering hope to some industry watchers that the recent rally could kick-start drilling activity before the end of 2016.

- **Ozarks Electric opens new solar field in Northwest Arkansas (June 27)**

Ozarks Electric Cooperative Corp. has turned to the power of the sun to offer its Arkansas customers renewable energy by offering subscriptions in a new multi million-dollar solar field east of Springdale. The new field sits on five acres with 4,080 solar panels that produce two million kilowatt hours of electricity, on average, annually, according to the Fayetteville-based utility.

- **AVECC to build 500,000-watt solar array in Van Buren (June 16)**

While most work to escape the hot summer sun, Arkansas Valley Electric Cooperative is working to chase it with work beginning on a 500,000-watt solar array to be built on 1.5-acres near the utilities regional office in Van Buren.

Today's Power Inc. – an AVEC subsidiary – is building the array and Coop officials say the up-front cost will be recovered by reducing costs for wholesale power during demand periods. The utility also plans to use the facility as a “demonstration and education tool” for members and the general public.

Natural gas-fired electric production to reach new records

By Talk Business & Politics Staff

On Thursday (July 14), the U.S. Energy Administration said natural gas-fired electricity generation in the United States is expected to reach a record level this year, providing an average of 3.8 million megawatthours per day in 2016, or 4% higher than earlier forecasts in 2015.

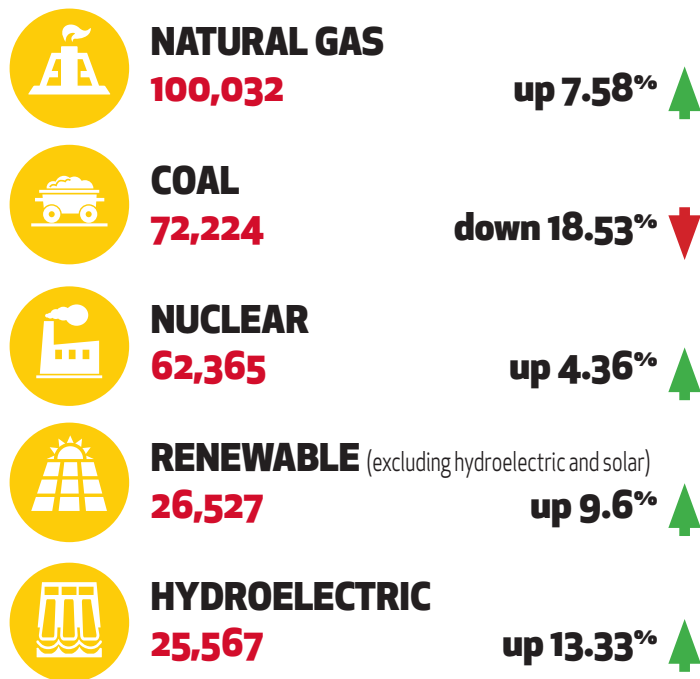
Although natural gas had long been the second-most prevalent fuel for electricity generation behind coal, it first surpassed coal generation on a monthly basis in April 2015. Natural gas-fired generation has surpassed coal-fired generation in most months since then and is expected to continue to exceed coal generation through the remainder of the year, ultimately providing 34% of the nation's electricity generated this year. Coal's share of the 2016 U.S. electricity generating mix is expected to be 30%, nuclear, 19%, and renewables, 15%.

However, natural gas electric generation is expected to decline slightly in 2017 as natural gas prices increase. Spot prices at the benchmark Henry Hub have increased recently, from a monthly average of \$1.92 per million British thermal units (MMBtu) in May to \$2.59/MMBtu in June, the highest monthly Henry Hub spot price since September 2015. Based on the latest STEO forecast, EIA expects natural gas spot prices to remain low enough to support record-high natural gas-fired generation in 2016.

In 2017, as spot natural gas prices continue to increase, natural gas-fired generation is expected to decrease by about 2%.

Top five U.S. electric power sources

(EIA, April 2016; numbers in thousand megawatt hours), with gains/losses compared to April 2015



Natural gas severance collections down nearly 60% in fiscal 2016, lowest level since levy was raised in 2009

By Talk Business & Politics Staff

Arkansas ended fiscal 2016 with the lowest level of tax revenue from natural gas severance collections since the Arkansas Legislature raised the levy on production just as the Fayetteville Shale reached its peak in 2009.

For the period ended June 30, severance tax revenue for natural gas sales declined 59.5% to \$31.8 million. On a monthly basis, June collections of \$1.33 million were the second-lowest month in fiscal 2016 and down 82.5% from \$7.6 million in June 2015.

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.

The precipitous decline in fiscal was highlighted by a parallel decline in natural gas prices and the state's rig count, which ended the fiscal year with zero drilling crews in operation in Arkansas. According to Baker Hughes weekly rig count, there has not been a rig in operation in Arkansas since the last week of 2015.

Despite the tax revenue swoon, Arkansas is not among the several energy-dependent states that have had to cut budgets because of significant revenue declines from the production of crude oil and natural gas. In Alaska, Texas, North Dakota, Wyoming, Oklahoma and West Virginia, lawmakers in those state are dealing with budget squeezes from Lower fossil fuel prices, and in some cases, lower production, that have led to lower severance tax receipts than were expected when revenue estimates were developed.

In 2009, the Arkansas Legislature raised the severance tax on natural gas production, applying rates of 1.25%, 1.5%, and 5.0% depending on the well classification by the Arkansas Oil and Gas Commission. Once extracted from the well, tax is collected from producers based on the current market value of gas sold, according to DFA officials.



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

June 30, 2015	June 30, 2016
\$78.634	\$31.858
million	million

down 59.5% ↓

June collections
June 2016: **\$1.33 million**
June 2015: **\$7.6 million**
down 82.5% ↓

Arkansas, U.S. drivers expected to see lower gas prices through summer

By Talk Business & Politics Staff

Arkansas drivers continue to get a summer reprieve from higher gas prices during the vacation driving season, except for the traditional run-up during the long Memorial Day and Independence Day holidays in late May and early July.

According to the U.S. Energy Information's short-term energy outlook (STEO) released July 12, U.S. summer regular gasoline retail prices are forecast to average \$2.25 per gallon, two cents lower than forecast in last month's STEO and 39 cents lower per gallon than last summer, measured as April through September. U.S. regular gasoline retail prices are now forecasted to average \$2.12 per gallon in 2016 and \$2.28 per gallon in 2017.

AAA officials say pump prices have now fallen for 35 straight days – the longest streak since August/September of last year – and are at their lowest mark for this date since 2004. On Thursday (July 14), the national average price for regular unleaded gasoline was \$2.21 per gallon, which is four cents per gallon less than a week ago, 16 cents less than a month ago and 56 cents less than one year ago. Prices for some drivers are even lower with some 25,000 gas stations (approximately a quarter of stations) nationwide now selling gasoline for less than \$2, AAA said.

The West Coast remains the most expensive region to buy gasoline in the country, led by California (\$2.88), Hawaii (\$2.83), Washington (\$2.67), Alaska (\$2.66) and Nevada (\$2.57). The nation's least expensive markets are South Carolina (\$1.93), Oklahoma (\$2.00), Mississippi (\$2.00), Missouri (\$2.01) and Alabama (\$2.02).

In Arkansas, AAA's fuel gauge shows motorists are paying on average about \$2 per gallon for regular unleaded, \$2.20 for diesel and \$2.50 for premium grades to fill up their tanks.

The average Arkansas metro prices for regular unleaded and diesel according to the AAA fuel gauge:

Fort Smith

\$1.90/gallon
\$2.18/gallon

Little Rock/North Little Rock

\$2.01/gallon
\$2.19/gallon

Northwest Arkansas

\$1.91/gallon
\$2.15/gallon

Texarkana

\$2.03/gallon
\$2.24/gallon

Pine Bluff

\$2.11/gallon
\$2.19/gallon



**REGULAR
DIESEL**

Fossil fuels still tops in U.S. energy consumption, but percentage declining

By Talk Business & Politics Staff

Fossil fuels still dominate U.S. energy consumption despite recent market share decline

Three fossil fuels – petroleum, natural gas, and coal – have provided more than 80% of total U.S. energy consumption for more than 100 years.

In 2015, fossil fuels made up 81.5% of total U.S. energy consumption, the lowest fossil fuel share in the past century. In the EIA's Annual Energy Outlook for 2016, which reflect current laws and policies, that percentage declines to 76.6% by 2040. Policy changes or technology breakthroughs that go beyond the trend improvements included in the Reference case could significantly change that projection.

In 2015, the renewable share of energy consumption in the United States was its largest since the 1930s at nearly 10%. The greatest growth in renewables over the past decade has been in solar and wind electricity generation. Liquid biofuels have also increased in recent years, contributing to the growing renewable share of total energy consumption.

The most significant decline in recent years has been coal. U.S. coal consumption fell 13% in 2015, the highest annual percentage decrease of any fossil fuel in the past 50 years. The only similar declines were in 2009 and 2012, when coal fell 12% below the level in the previous year.

Spot prices for electricity delivery ranged from a high of \$46.15 per megawatt hours in the Mid-Atlantic market, to \$26.50 in the Northwest.

U.S. crude oil refinery inputs averaged over 16.5 million barrels per day during the week ending July 8, 2016, 143,000 barrels per day less than the previous week's average.

U.S. crude oil imports averaged over 7.8 million barrels per day last week, down by 522,000 barrels per day from the previous week. Over the last four weeks, crude oil imports averaged just about 8.1 million barrels per day, 11.2% above the same four-week period last year.

Refineries operated at 92.3% of their operable capacity last week. Gasoline production increased last week, averaging over 10.2 million barrels per day. Distillate fuel production increased last week, averaging over 5 million barrels per day.

Price points for U.S. energy commodity prices at the end of July 13, 2016:



CRUDE OIL (NYMEX):

\$44.87

▼ **down 4.2%**



NATURAL GAS (NYMEX):

\$2.74 (per million Btu)

▼ **down 0.1%**



COAL (NYMEX):

\$39.50 (per ton)

unchanged



GASOLINE (RBOB, essentially the raw commodity):

New York **\$1.38 cents** per gallon

Gulf Coast **\$1.38 cents** per gallon

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

U.S. rig count on the rise, yet still no drilling activity in Arkansas in first half of 2016

By Talk Business & Politics Staff

The nation's rig count continued to move upward in July as the number of rigs in operation in the U.S. rose by nine to 44 for the week ending July 8, according to oilfield giant Baker Hughes. Altogether, oil rigs were up 10 to 351, gas rigs down 1 to 88, and miscellaneous rigs unchanged at 1.

For the first half of 2016, there has been no drilling activity in Arkansas as Southwestern Energy Company, BHP Billiton and other Fayetteville Shale drillers have offered no indication they plan to send rig crews back in the unconventional shale play until natural gas prices rebound above \$3 per million British thermal units (MMBtu).

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 peaked at 60 on July 11, 2008, when Fayetteville Shale development was in full swing, Baker Hughes statistics show.

Overall, the U.S. rig count is down 423 rigs from last year's count of 863, with oil rigs down 294, gas rigs down 129, and miscellaneous rigs unchanged at 1. The U.S. Offshore Rig Count is 19, unchanged from last week, and down 12 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 July 8)

Texas: **201**
Oklahoma: **59**
Louisiana: **43**
North Dakota: **28**
New Mexico: **21**
Colorado: **19**
Pennsylvania: **13**
Ohio: **12**
W. Virginia: **11**
Alaska: **8**
Wyoming: **8**
California: **5**





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