

# ARKANSAS **ENERGY** REPORT

*September 2016*



*Business matters.*

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



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## Recent energy industry headlines from Talk Business & Politics.

- ***SWEPCO parent company sells four power plants for \$2.1 billion***

American Electric Power, the parent company of Southwestern Electric Power Co., has signed an agreement to sell four competitive power plants totaling 5,200 megawatts (MW) for approximately \$2.17 billion to a newly formed joint venture of Blackstone and ArcLight Capital Partners LLC. (Sept. 16)

- ***Fayetteville-based WattGlass garners \$679,413 federal award***

Fayetteville-based startup WattGlass received a \$679,413 award from the U.S. Department of Energy's SunShot Initiative to help commercialize its anti-reflective glass coating technology. (Sept. 15)

- ***NRC report includes negative review of Entergy's nuclear plant in Arkansas***

The Nuclear Regulatory Commission's has issued its final mid-cycle assessment letters to the nation's 99 operating commercial nuclear power plants regarding their performance through the first half of 2016, including a negative review of oversight at Entergy Corp's Arkansas Nuclear One and Two facilities in Russellville. (Sept. 12)

- ***Diamond Pipeline gets green light from the PSC on \$900 million project***

One week after getting the go ahead to begin work on a 440-mile crude oil pipeline across the heart of Arkansas, Diamond Pipeline officials said Tuesday they still expect to begin construction by year's end and begin hiring the hundreds of workers needed to complete the project. (Sept. 6)

# EIA: Government-owned buildings have significantly reduced energy consumption

By Talk Business & Politics Staff

Government-owned buildings at the federal, state and local levels have reduced their energy intensity in recent years. From 2003 to 2012, the average energy intensity, or energy consumption per square foot, of government buildings decreased by 23%, from 105,300 British thermal units per square foot (Btu/sqft) to 81,200 Btu/sqft.

Over the same period, the average energy intensity across all commercial buildings decreased by 12%, from 91,000 Btu/sqft to 80,000 Btu/sqft.

According to the U.S. Energy Information Administration's Commercial Building Energy Consumption Survey (CBECS), about 14% of commercial buildings in the United States are owned by a government agency at all levels. In most states, governments at all levels have passed legislation or adopted specific goals and targets regarding energy use in both new and existing buildings.

For example, a 2015 Executive Order requires a reduction in overall federal building energy intensity of 2.5% annually between 2015 and 2025. EIA data highlight some of the specific actions building owners can take to help meet building energy reduction goals or requirements, such as monitoring energy use and upgrading key equipment.

Building automation systems that automatically control lighting and heating, cooling, and ventilation (HVAC) systems are present in about one in three government buildings, more than twice the rate as in nongovernment buildings. Formal energy management plans, which involve setting and regularly monitoring specific energy targets, are also significantly more common in government than in nongovernment buildings (27% and 8%, respectively).

About 4% of government-owned buildings are federal, 24% are state, and the remaining 72% are local. While most federal buildings are office buildings or post offices (categorized by CBECS as service), the most prevalent type of state or local government building is schools. More than half of government buildings are located on multibuilding campuses, where energy management and purchasing are often centralized.

Campuses may also have a central physical plant, with equipment like boilers, chillers, and generators serving multiple buildings, which is often more efficient and cost-effective than separate building-level equipment.

# IOGCC to hold annual conference in Little Rock on Oct. 2-4

By Talk Business & Politics Staff

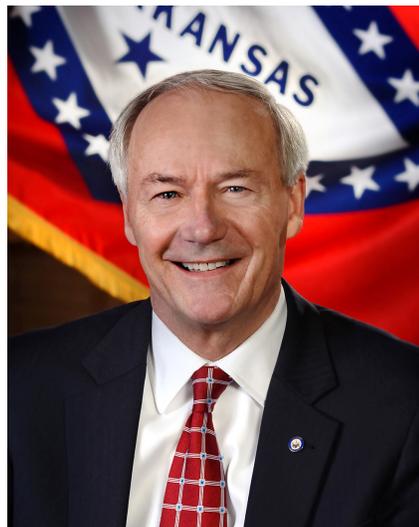
The influential Interstate Oil & Gas Compact Commission will hold its annual conference in Little Rock on Oct. 2-4, where Gov. Asa Hutchinson will take over as head of the multistate government agency from outgoing chair, Gov. Mary Fallin of Oklahoma.

The IOGCC general session on Oct. 3 will feature remarks from both Fallin and Hutchinson. Past chairs of the IOGCC include former Alaska and Texas governors and presidential candidates Sarah Palin and Rick Perry who served in 2011 and 2012, respectively. Former Gov. Mike Huckabee also served as chair of the group in 2001.

The annual conference in Little Rock, called “Energy’s Future – States’ Challenges,” will address current challenges in the oil and gas industry and discuss possible solutions with state regulators, federal officials, industry executives and other interested parties. The Arkansas Independent Producers and Royalty Owners will combine their annual meeting with three-day IOGCC event.

The IOGCC, based in Oklahoma City, is the nation’s only dedicated forum for governors, state appointees and key policy staff focusing on key oil and natural gas issues. Members include governors of oil and gas producing states, state oil and gas regulators, and industry and environmental officials. Lawrence Bengal, director of the Arkansas Oil and Gas Commission, is Arkansas’ official IOGCC representative.

Other IOGCC affiliates include federal regulatory agencies from Canada and the U.S. that regulate the oil and gas industry such as the Departments of Energy, Interior and Environmental Protection Agency.



Gov. Asa Hutchinson



Gov. Mary Fallin of Oklahoma

# Most Arkansas drivers seeing pump prices below \$2, prices expected to remain steady until Labor Day

By Talk Business & Politics Staff

Gasoline prices in Arkansas and across the rest of the U.S. are expected to gradually move lower as U.S. refineries change over from summer-blend to a cheaper-to-produce winter-blend gasoline, which takes place in many parts of the country starting on Thursday (Sept. 15).

According to AAA, the national average price for regular unleaded gasoline is \$2.13 per gallon is now at \$2.18, down six cents from a month ago and 12 cents cheaper than the same period in 2015. However, at \$1.99 per gallon on average, Arkansans in most regions of the state can find gasoline below \$2 and fill up the tank of an average 15- to 16-gallon vehicle at or around \$40.

According to the U.S. Energy Information Administration (EIA), drivers will continue to benefit from an oversupplied market and AAA predicts consumers could experience national average prices below \$2.00 at the pump if the price of crude oil remains relatively low and refineries are able to conduct planned seasonal maintenance without issue.

Gas prices in seven states are below \$2 per gallon: South Carolina (\$1.91), Alabama (\$1.94), Mississippi (\$1.97), New Jersey (\$1.98), Texas (\$1.98), Tennessee (\$1.99) and Virginia (1.99). The biggest weekly decreases in price are seen in Indiana (-11 cents), Michigan (-10 cents), Ohio (-9 cents), Kentucky (-7 cents), Nebraska (-6 cents), Maryland (-5 cents), Minnesota (-4 cents).

Oil prices briefly spiked last week due to the release of an EIA report that stated U.S. crude inventories fell 14.5 million barrels, but quickly retreated when inventory numbers were attributed to import disruption due to tropical storm Hermine.

In Arkansas, AAA's fuel gauge shows pump prices are down two pennies from a week ago, but are near year ago levels of \$2.05 per gallon. Besides prices below \$2 a gallon for regular unleaded in most areas of the Natural State, drivers are seeing diesel and premium fuel prices at \$2.21 and \$2.50 per gallon, respectively. Some areas of the state are seeing prices as low as \$1.80 per gallon in the Fort Smith area, according to GasBuddy.com.

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

**Fort Smith**

**\$1.92/gal**  
**\$2.23/gal**

**Little Rock/North Little Rock**

**\$1.99/gal**  
**\$2.22/gal**

**Northwest Arkansas**

**\$1.97/gal**  
**\$2.19/gal**

**Texarkana**

**\$1.97/gal**  
**\$2.21/gal**

**Pine Bluff**

**\$2.03/gal**  
**\$2.21/gal**



**REGULAR  
DIESEL**

# Arkansas severance tax collections down 44.4% in August, still not as bad as Texas

By Talk Business & Politics Staff

Severance tax collections for the first two months of fiscal 2017 are well below years ago levels as Fayetteville Shale drillers continue to limit marketed sales of natural gas to selected wells already drilled, developed and in production.

In fiscal 2016, Arkansas severance tax collections fell to the lowest level since 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.

Gross natural gas severance tax revenues fell 44.4% to \$2 million in August, compared to \$3.6 million in the same month a year ago. In the first month of fiscal 2017, which began July 1, severance collections only amounted to \$1.76 million, nearly 50% from \$3.48 million a year ago. That total is less than every month in fiscal 2016 except May and June, the two months preceding the July revenue report.

Even though Arkansas severance tax collections for natural gas and crude oil is well off previous years when oil and gas prices were trading higher, they have not had the impact on overall state revenue collections as in other energy-producing states such as Oklahoma, Texas, Alaska and Louisiana.

Last week, Texas Comptroller said Texas' revenue picture was nearly \$1 billion worse than forecasted due to declining oil and gas prices. In Texas, oil production and regulation tax revenue was \$1.7 billion, 7.6% below estimates of \$1.8 billion, while natural gas tax revenue was \$579 million, 33.6% below projections of \$871 million.

On a positive note, there has been a slight uptick in drilling permits in August and September, according to data from the Arkansas Oil and Gas Commission. Southwestern Energy and other Fayetteville Shale drillers have indicated in the past that would likely increase drilling and production activity in natural gas prices moved above the breakeven level of \$3 per million British Thermal units (MMBtu).

At close of business on Sept. 15 on the New York Mercantile Exchange, natural gas futures for October delivery closed at \$2.927 per MMBtu, up 3.8 cents or 1.3%



**\$31.8 million**  
Arkansas severance tax revenue in fiscal year 2016

**59.5%↓**  
decline in fiscal 2016 severance tax revenue compared to fiscal 2015

Severance tax revenue to begin fiscal year 2017  
**July-August 2016: \$3.76 million**  
**July-August 2015: \$7.08 million**

**46.8%↓**  
decline in severance tax revenue to begin fiscal year 2016

# U.S. rig falls on IEA report concerning global crude oil glut

By Talk Business & Politics Staff

After gaining ground in 10 out of the last eleven weeks, the U.S. rig count fell by two during the week ended Sept. 16 (Friday) as U.S. and international markets were rocked this week by the International Energy Agency's (IEA) forecast that global oil demand growth is slowing at a faster pace than initially predicted.

In its highly-watched Oil Market Report on Sept. 13, the IEA forecast said international crude stockpiles will continue to outpace demand at least through the first half of next year. The report also noted that Organizing Petroleum Export Countries (OPEC) members Saudi Arabia and Iran have each raised oil output by over 1 million barrels per day since late 2014 when the cartel shifted strategy to defend market share rather than price.

Since a Sept. 13 report on the global oil glut, crude prices have dropped nearly 5%. Brent prices in London were down 1.27% at \$46 per barrel in early trading on Friday (Sept. 16). U.S. benchmark crude, West Texas Intermediate, fell 1.2% to \$43.39 a barrel on the New York Mercantile Exchange. Most U.S. oil and gas stocks also saw big losses during the week on Wall Street.

For the week ended Sept. 16, the U.S. rig count fell by 2 to 506, according to Baker Hughes Inc. The number of oil rigs in operation increased by 2 to 414, natural gas rigs rose by three to 89, and one miscellaneous rig went offline. The Arkansas rig count remains at zero through 2016.

For the year, the U.S. rig count has declined by 324, or 40.2% to 482 rigs, compared to last year's count of 806. For the year, oil rigs are down 228, gas rigs down 109, and miscellaneous rigs up one.

## Here's the U.S. Rig Count by State

(Top Ten, as of Sept. 16)

[www.bakerhughes.com/rigcount](http://www.bakerhughes.com/rigcount)

Texas: **241**  
Oklahoma: **66**  
Louisiana: **35**  
New Mexico: **30**  
North Dakota: **28**  
Pennsylvania: **21**  
Colorado: **19**  
Ohio: **13**  
Wyoming: **13**  
West Virginia: **8**





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