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ARKANSAS ENERGY REPORT

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TB&P TALK BUSINESS & POLITICS

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ARKANSAS ENERGY REPORT

Recent energy industry headlines from Talk Business & Politics.

- ***AAEA officials talk renewable energy policies***

  Officials with the Arkansas Advanced Energy Association (AAEA) offered several policy recommendations on Oct. 11 concerning two dockets that some local energy experts say could determine the future of state's burgeoning renewable energy industry. The AAEA's new executive director, Little Rock-native Katie Niebaum, began her new duties at the annual event. AAEA founding director Steve Patterson will retire on Oct. 31. *(Oct. 11)*

- ***GE to purchase LM Wind Power, no details on impact on Little Rock operation***

  Industrial giant GE will purchase Danish wind turbine maker LM Wind Power for $1.65 billion, allowing the U.S. industrial giant to continue expanding its renewable energy reach across the globe. LM Wind Power operates a scaled-down manufacturing facility at the Little Rock Port Authority where the company's payroll has ranged from 100 workers to more than 500. *(Oct. 11)*

- ***Arkansas power prices 7th lowest in the nation***

  In the West South Central regional, which includes Arkansas, Louisiana, Oklahoma and Texas, residential electricity prices are averaging just over 10 cents per KWh and are down 4% over the past year. In 2015, Arkansas had the nation's seventh lowest average electricity prices at about 8.15 cents paid per KWh. *(Oct. 10)*

- ***First rig in 2016 comes online in the Fayetteville Shale Play***

  For the first time since the end of 2015, a natural drilling rig in Arkansas is up and running in the Fayetteville Shale play as natural gas futures bounced around $3 per million British Thermal units. *(Sept. 30)*

U.S. energy-related CO2 emissions fall to lowest since 1991

By Talk Business & Politics Staff

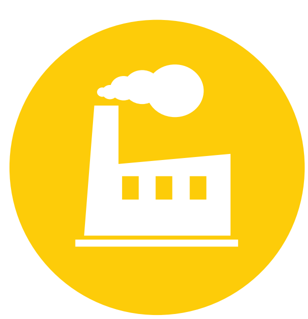
U.S. energy-related carbon dioxide (CO2) emissions totaled 2,530 million metric tons in the first six months of 2016. This was the lowest emissions level for the first six months of the year since 1991, according to the U.S. Energy Information Administration (EIA).

The agency cited mild weather and changes in the fuels used to generate electricity for much of the decline in energy-related emissions. EIA's Short-Term Energy Outlook projects that energy-associated CO2 emissions will fall to 5,179 million metric tons in 2016, the lowest annual level since 1992.

In the first six months of 2016, the United States had the fewest heating degree days (an indicator of heating demand) since at least 1949, the earliest year for which EIA has monthly data for all 50 states. Warmer weather during winter months reduces demand for heating fuels such as natural gas, distillate heating oil, and electricity. Overall, total primary energy consumption was 2% lower compared with the first six months of 2015. The decrease was most notable in the residential and electric power sectors, where primary energy consumption decreased 9% and 3%, respectively.

Coal and natural gas consumption each decreased compared to the first six months of 2015. However, the decrease was greater for coal, which generates more carbon emissions when burned than natural gas. Coal consumption fell 18%, while natural gas consumption fell 1%. These declines more than offset a 1% increase in total petroleum consumption, which rose during that period as a result of low gasoline prices.

Consumption of renewable fuels that do not produce carbon dioxide increased 9% during the first six months of 2016 compared with the same period in 2015. Wind energy, which saw the largest electricity generating capacity additions of any fuel in 2015, accounted for nearly half the increase. Hydroelectric power, which has increased with the easing of drought conditions on the West Coast, accounted for 35% of the increase in consumption of renewable energy. Solar energy accounted for 13% of the increase and is expected to see the largest capacity additions of any fuel in 2016.



2,530 MILLION METRIC TONS

January-June CO2 emissions related to U.S. energy production; lowest six month level since 1991

5,179 MILLION METRIC TONS

Estimated CO2 emissions in 2016, which would be the lowest annual level since 1992

Deep decline in oil well drilling leveling off, crude price jump over $50 a barrel mark

By Talk Business & Politics Staff

An America Petroleum Institute report on Oct. 10 shows that the estimated oil wells drilled and completed in the third quarter of 2016 remained relatively unchanged from the previous quarter at 2,285. That is a decline of 3.7%, which follows an average of 17.3% in quarterly declines for the past year and a half.

"Today's report shows evidence that the consistent decline in oil and natural gas drilling could be coming to an end," said Hazem Arafa, director of API's statistics department. "Even with the decline, our nation has established itself as the world leader in the production of oil and natural gas and in the reduction of carbon emissions which are near 20-year lows. Moving forward, it's important to put in place policies that embrace America's leadership in energy. It's helping American consumers, generating revenue for the government, strengthening our national security, and improving the environment."

The API's quarterly well completion report for the second week of October come has U.S. benchmark crude oil prices rose well above $50 a barrel and ended Monday's session at the highest level since July 2015.

Crude prices rose in the week opening session as Russian President Vladimir Putin said his country will support the Organization of the Petroleum Exporting Countries (OPEC) and freeze oil production in order to bolster international crude prices.

U.S. crude oil refinery inputs averaged over 16 million barrels per day during the week ending Sept. 30, 2016, 302,000 barrels per day less than the previous week's average. Refineries operated at 88.3% of their operable capacity last week. Gasoline production rose last week, averaging 10 million barrels per day. Distillate fuel production decreased last week, averaging over 4.7 million barrels per day

U.S. crude oil imports averaged 7.7 million barrels per day last week, down by 125,000 barrels per day from the previous week. Over the last four weeks, crude oil imports averaged over 8 million barrels per day, 10.1% above the same four-week period last year.

Here are highlights for U.S. energy commodity prices at the end of Oct. 6, 2016:

CRUDE OIL *(NYMEX)*:
$50.44 — **up 1.4%**

NATURAL GAS *(NYMEX)*:
$3.05 (per million Btu) — **down 0.3%**

COAL *(NYMEX)*:
$40.00 (per ton) — **unchanged**

GASOLINE *(RBOB, essentially the raw commodity)*:

New York	**$1.54 cents** per gallon
Gulf Coast	**$1.58 cents** per gallon
Los Angeles	**$1.53 cents** per gallon

Post-Hurricane Matthew pump prices ratchet upward

By Talk Business & Politics Staff

In the midst of concerns about energy distribution hubs being affected by Hurricane Matthew, the national average price for regular unleaded gasoline has increased for 12 of the past 14 days, reaching a price of $2.26 per gallon as of Oct. 10. That average price is 3 cents more than one week ago, 8 cents more than one month ago and 6 cents less than one year ago.

Over the weekend, Florida, Georgia and South Carolina saw the arrival of Hurricane Matthew and residents in those areas expressed significant concerns about the availability of gasoline leading up to and following the storm. Ports and fuel terminals in all three states were closed ahead of the storm. However, there were no refineries threatened by the path of the storm and by Friday afternoon many ports in southern Florida were already cleared by the Coast Guard and open to receive vessels.

Many coastal ports are expected to reopen immediately, allowing waterborne deliveries of gasoline to continue. Barring any delays due to flooding and power outages, tanker trucks should be able to access terminals and quickly resupply stations across the impacted areas.

In Arkansas, pump prices are averaging about $2.05 for a gallon of regular unleaded, five cents higher than prices a week and a month ago and eight cents cheaper than year ago levels. 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 West Coast continues to be the most expensive market for gasoline, including the only six states where drivers are paying $2.50 or more on average: Hawaii ($2.84), California ($2.79) Washington ($2.72), Alaska ($2.64), Oregon ($2.52) and Nevada ($2.50). The states with the largest increases this week are Indiana (+11 cents), Michigan (+10 cents), Missouri (+8 cents), West Virginia (+8 cents), Ohio (+8 cents), Illinois (+6 cents) and Florida (+6 cents).

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).

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

Fort Smith
$1.99/gal
$2.27/gal

Little Rock/North Little Rock
$2.03/gal
$2.27/gal

Northwest Arkansas
$2.02/gal
$2.25/gal

Texarkana
$2.09/gal
$2.21/gal

Pine Bluff
$2.06/gal
$2.26/gal

REGULAR
DIESEL

September severance tax collection at highest level since October 2015, year-to-date numbers still down

By Talk Business & Politics Staff

Severance tax collections for the first quarter of 2017 fell nearly 33%, but revenue for marketed sales of natural gas in September rose to the highest level in nearly a year as higher commodity prices are drawing some drilling interests back to the Fayetteville Shale.

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.

In September, collections jumped to a solid $3.5 million, well above August's $2 million tally and only 7.7% below the $3.79 million collected a year ago. Collections for the first three months of fiscal 2017 fell 32.9% to $7.29 million, compared to $10.87 million in the first quarter of fiscal 2016.

Still, the month-to-month and quarterly severance tax collection in fiscal years 2016 and 2017 are well behind the $7.56 million and $23.86 million collected in September and the first quarter of fiscal 2015, respectively.

Gross natural gas several 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 on 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.

The improved severance collections are largely due natural gas futures rallying consistently above the $3 per million British thermal unit. In Monday's session on the New York Mercantile Exchange, natural gas futures for November delivery rose as high as $3.28 per MMBtu before settling at $3.259 per MMBtu at close, down 0.01%.

$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-Sept. 2016: $7.29 million

July-Sept. 2015: $23.86 million

69.4% ↓

decline in severance tax revenue to begin fiscal year 2016

U.S. rig count continues upward trend, one Arkansas rig in play

By Talk Business & Politics Staff

The number of drilling rigs operating in the U.S. continued on an upward trend as prices for crude oil and natural gas have rallied above $50 a barrel and $3 per million British thermal units, respectively.

For the week ended Oct. 7, the U.S. rig count rose by three to 524 according to Baker Hughes Inc. The number of oil rigs drilling in the U.S., now at 428, have seen 15 straight weeks of positive gains. There were 3 new oil rigs and one miscellaneous rig in operation, while two natural gas rigs went offline.

For the year, the U.S. rig count has declined by 271, or 34.1% to 524 rigs, compared to last year's count of 795. For the year, oil rigs are down 177, gas rigs down 95, and miscellaneous rigs up one.

On Sept. 30, the first natural gas drilling rig in Arkansas in 2016 came online in the Fayetteville Shale play. Houston-based Southwestern Energy said in late July that it planned to bring back hire and bring back some laid off workers to the Arkansas natural gas development under the company's "renewed" $500 million capital program.

In an investor presentation in August, the Fayetteville Shale leader said it planned to drill 7 to 10 wells and complete 36 to 39 wells in the second half of 2016. That improved guidance called for one new rig and a healthy $73 million in capital spend in the Arkansas shale play.

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

(Top Ten, as of Oct. 7)

Texas: **247**

Oklahoma: **70**

Louisiana: **42**

North Dakota: **30**

New Mexico: **29**

Pennsylvania: **24**

Colorado: **19**

Ohio: **14**

Wyoming: **13**

W. Virginia: **9**

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