TALK BUSINESS & POLITICS

Arkansas Energy Report

November 2017

sponsored by

MISO

ARKANSAS STATE CHAMBER OF COMMERCE

ASSOCIATED INDUSTRIES OF ARKANSAS

Business matters.

Arkansas Energy Report

Recent energy industry headlines from Talk Business & Politics

Murphy USA 3Q earnings top Wall Street views despite hurricane woes

Even with Hurricane-related store closures and fuel supply woes, Murphy USA Inc.'s third quarter profits were 50% better than a year ago and easily beat Wall Street expectations, the El Dorado-based convenience store operator reported Nov. 1 For the period ended Sept. 30, the Murphy Oil spin-off posted net income of $67.9 million, $1.90 per share, compared to year ago net income of $45.5 million, or $1.16 per share. Total revenue jumped 6.7% to $3.2 billion, compared to $3 billion in the same period a year ago. (Nov. 1)

Entergy Arkansas reveals plans for state's largest solar project in the Delta

Entergy Arkansas will expand its renewable energy portfolio with plans for a new solar project in the state's Delta region that will be the largest sun-powered development in Arkansas, company officials told Talk Business & Politics. According to the utility giant's recent petition to the Arkansas Public Service Commission (PSC), Entergy Arkansas is seeking a declaratory order and approval of a power purchase agreement for a new renewable solar resource and for recovery of an additional amount. The petition requests approval of the Chicot Solar project, a planned 100 megawatt (MW) solar photovoltaic project near Lake Village. (Oct. 31)

President Trump names Cabot senator to 16-state energy compact

Donald Trump named Sen. Eddie Joe Williams, R-Cabot, to a position on the Southern States Energy Board, an interstate compact composed of governors and state legislators from 16 southern states, Puerto Rico and the U.S. Virgin Islands that promotes energy policy across the region. Williams, a former Cabot mayor who now represents the expansive District 29 that spreads across parts of Lonoke, Faulkner and Pulaski counties, said he will have to resign as state senator over the next 30 to 45 days. (Oct. 26)

Arkansas PSC Chair calls Trump energy policy inconsistent, says let market decide

The state's top utility regulator said a proposed federal rule some critics say would prop up the nation's declining coal and nuclear power industries would put the Trump administration in the untenable position of selecting "winners" in the U.S. energy marketplace. Arkansas Public Service Commission Chairman Ted Thomas, one of Gov. Asa Hutchinson's first key appointments after being sworn into office in January 2015, made the comments following his keynote speech at the Arkansas Advanced Energy Association's (AAEA) annual meeting in Little Rock. (Oct. 10) TB&P

U.S. crude oil exports tops 2 billion barrels, hits all-time high

In its weekly petroleum status report, the U.S. Energy Information Administration (EIA) reports U.S. exports have reached 2.13 billion barrels per day, an all-time high for U.S. oil shipments headed overseas. The increasing U.S. exports have also led to a widening spread between the U.S. premium, light sweet crude, West Texas Intermediate, and the international benchmark Brent crude oil.

The price of Brent crude was at $60.44, down 0.1% on London's ICE Futures exchange. In late October, Brent crude topped $60 for the first time since July 2015. On the other hand, WTI was slightly up 15 cents to $54.38 in the midweek session on the New York Mercantile Exchange.

The improving U.S. and international crude market adds to speculation that Organization of the Petroleum Exporting Countries (OPEC), along with Russia and other major international oil producers, will extend agreed-upon crude oil production cuts at the upcoming Nov. 30 cartel meeting.

Spot prices for electricity delivery ranged from a high of $40.68 per megawatt hours in Southern California to $20.05 in New England, where spot prices for delivery fell 31.5% to $11.81. The Northwest market rose 7.4% to $25.50.

U.S. crude oil refinery inputs averaged over 16 million barrels per day during the week ending Oct. 27, 10,000 barrels per day less than the previous week's average. Refineries operated at 88.1% of their operable capacity in the week ending Oct. 27. Gasoline production increased last week, averaging 10.2 million barrels per day. Distillate fuel production increased last week, averaging over 5 million barrels per day.

U.S. crude oil imports averaged about 7.6 million barrels per day last week, down by 552,000 barrels per day from the previous week. Over the last four weeks, crude oil imports averaged 7.7 million barrels per day, remaining unchanged from the same four-week period last year.

The national average retail regular gasoline price increased for the first time in seven weeks to $2.488 per gallon on Oct. 30, $0.009 over last week's price and $0.258 more than a year ago. The national average retail diesel fuel price increased to $2.819 per gallon, $0.022 per gallon over last week and $0.340 above a year ago. TBP

Here are highlights for U.S. energy commodity prices at the end of Oct. 27, 2017

Crude oil (NYMEX)
$54.32 **up 0.1%**

Natural gas (NYMEX)
$2.89 (per million Btu) **down 0.1%**

Coal (NYMEX)
$11.60 (per ton) **unchanged**

Gasoline (RBOB, essentially the raw commodity)

New York	**$1.76 per gallon**
Gulf Coast	**$1.72 per gallon**
Los Angeles	**$1.92 per gallon**

Haynesville shale on rebound, U.S. rig count continues upward trend

Drilling activity in the Haynesville Shale, which reaches into parts of south Arkansas, has pushed natural gas production levels in the neighboring shale development to the highest level since the end of 2013, according to new data from the U.S. Energy Information Administration.

The EIA report comes as Fayetteville Shale operators such as BHP Billiton have shifted drilling rigs and production from the Arkansas play to the sister shale development that extends across parts of north Louisiana, east Texas and south Arkansas. The U.S. Geological Survey estimates the Haynesville shale play holds 174.6 trillion cubic feet of technically recoverable shale gas resources, the second-largest level in the U.S. after the Appalachian region.

According to EIA's short-term forecast, marketed natural gas production in Haynesville reached 6.9 billion cubic feet per day (Bcf/d) in September after remaining near 6 Bcf/d for the previous three years. The recent growth in Haynesville natural gas production is attributable to an increase in the number of active drilling rigs starting late in 2016, and a trend toward higher per-well initial production rates, the EIA said.

From 2009 to 2012, the Haynesville region was the largest shale gas-producing region in the country. In November 2011, Haynesville regional production reached a record high of 10.4 Bcf/d. In early 2013, however, as natural gas prices started to decrease, natural gas production in the Haynesville region was surpassed by production in the Appalachian region, which includes the Marcellus and Utica formations.

But the Haynesville region has enjoyed a rebound in 2017, adding 21 rigs to its yearly rig count of 41, according to Baker Hughes. Last month, BHP said it upped its rig count in its onshore U.S. operations, including one new rig in the Haynesville shale. At the same time, the Australian mining giant is still seeking to auction off the company's Fayetteville Shale assets to interested buyers, hoping to get a premium offer for key assets in the emerging Moorefield development in the Arkoma Basin.

"In the Haynesville [region], our hedging strategy continues to allow us to reduce price risk and secure average rates of return in excess of 20%," said BHP Chief Executive Andrew McKenzie said. "In the Fayetteville, we continue to work with partners to assess the potential of the Moorefield horizon. We anticipate participation in additional non-operated wells in the 2018 financial year."

The U.S. rig count slid by four rigs the week ending Oct. 27 to 909. Of that total, oil rigs rose by one to 737, while natural gas rigs fell 5 to 172, and miscellaneous rigs were unchanged, Baker Hughes' weekly rig count data shows.

For the year, the U.S. rig count is up to 352, up 63.2% compared to last year's count of 557. Yearly oil rig totals are up 296, gas rigs by 58, and miscellaneous rigs down by two. In Arkansas, there are no rigs in operation as drilling activity has shifted to liquids rich shale plays that produce natural gas and crude oil. TBP

Here's the U.S. rig count by state

(Top Ten, as of Oct.27)

Texas: **441**

Oklahoma: **125**

New Mexico: **67**

Louisiana: **62**

North Dakota: **49**

Colorado: **33**

Pennsylvania: **31**

Ohio: **29**

Wyoming: **22**

California: **14**

Fluctuating gas prices likely to decrease during holidays

Arkansas continues to be one of the nation's least expensive gasoline markets. Prices across the U.S. are heading lower as Gulf Coast refineries utilization capacity surpassed 90% for the first time since Hurricane Harvey made landfall in late August.

According to AAA, gas prices across the U.S. are highly volatile with the national gas price average at $2.47 per gallon, one cents higher than the week ending Oct. 27. Gas prices are fluctuating across the country with 25 states paying more, 17 states paying less and nine states staying stable for a gallon of regular gasoline. States in the Great Lakes and Central regions experienced the biggest increases of up to six to 12 cents headed into the weekend ahead of Halloween

"Depending on where in the country you are filling up your tank, gasoline prices are playing tricks on some motorists with large increases on the week and treating others to lower gas prices," said Jeanette Casselano, AAA spokesperson. "The price volatility can be attributed to a new trend that has emerged during October in the last few years, which is an unexpectedly steady demand for gasoline after the end of the summer driving season."

The West Coast continues to lead the U.S. among most expensive markets. Six of the top ten most expensive markets in the country are found in this region: Hawaii ($3.15), Alaska ($3.04), California ($3.04), Washington ($2.91), Oregon ($2.75) and Nevada ($2.72).

Despite the fluctuation, AAA forecasts the national average gas price will decrease as the holidays approach. The nation's top ten markets with the largest monthly changes included Georgia (-27 cents), Florida (-23 cents), Alabama (-22 cents), Tennessee (-22 cents), South Carolina (-21 cents), Mississippi (-20 cents), North Carolina (-20 cents), Texas (-19 cents), Indiana (+16 cents) and Virginia (-14 cents).

The nation's top ten least expensive markets are: Mississippi ($2.19), Alabama ($2.19), South Carolina ($2.21), Louisiana ($2.22), Arkansas ($2.22), Texas ($2.23), Tennessee ($2.25), Virginia ($2.26), Missouri ($2.26) and Oklahoma ($2.30).

According to the EIA, gasoline inventories dropped by 1 million the week ending Oct. 27 to a total of 56.9 million barrels in the region – a 6-million barrel deficit compared to the same time last year. In the aftermath of Hurricanes Harvey and Irma, the region shipped inventory to hard-hit areas in the south and southeast, and with a recent uptick in exports, overall inventories are tightening.

In Arkansas, pump prices are averaging about $2.24 for a gallon of regular unleaded, three cents higher than the previous week, 7 cents cheaper than a month ago and 24 cents higher than year ago levels. Prices are as low as $1.80 per gallon in the Fort Smith area, according to GasBuddy.com TBP

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

Fort Smith
$2.22/gal
$2.58/gal

Little Rock/North Little Rock
$2.21/gal
$2.53/gal

Northwest Arkansas
$2.27/gal
$2.59/gal

Texarkana
$2.25/gal
$2.57/gal

Pine Bluff
$2.26/gal
$2.53/gal

REGULAR
DIESEL

Arkansas severance tax collection up 20% in first quarter

Severance tax collections for the first quarter of fiscal 2018 have jumped nearly 20% as Fayetteville Shale drillers have increased total net production. That's having no rigs in operation across the unconventional Arkansas play, according to monthly tax data compiled by the Revenue Division of the state Department of Finance and Administration (DFA).

In the first three months of the state's fiscal year, which began on July 1, 2017, gross natural gas severance tax revenue was $10.7 million, compared to nearly $7.3 million in the same three-month period a year ago.

At the current level, fiscal 2018 severance tax collections are on schedule to surpass the previous two years when state revenue for marketed sales of natural gas saw a precipitous drop as natural gas commodity forced Fayetteville Shale companies to halt capital spending by hundreds of millions of dollars, leading to massive layoffs and idle rig activity.

Since the state began keeping severance tax totals in fiscal 2003, revenue collections peaked in fiscal years 2014 and 2015 when the state brought in $77.3 million and $78.6 million, respectively. In fiscal 2016, plummeting natural gas prices caused Arkansas severance tax collections to slide to only $31.8 million. In fiscal 2017, collections rose slightly to $38.1 million.

For September, collections jumped to a solid $3.45 million, slightly below August and July totals of $3.5 million and $3.7 million, respectively. Collections for the first three months a year ago were $1.7 million, $2 million and $3.5 million.

Fayetteville Shale leader Southwestern Energy Co. recently said it invested a total of nearly $921 million in its exploration and production business through the first nine months of 2017, including drilling 106 wells, completing another 118, and placing 130 wells to sales. That included capital spending of $98 million to drill 13 wells and complete another 22 wells in the Fayetteville Shale. An additional 23 wells were placed into sales, all at an average realized price of $3.17 per million British Thermal Units (MMBtu), officials said.

During the third quarter, Southwestern said it also placed three wells to sales in the Fayetteville Shale play, including two delineation wells in the emerging Moorefield development. Company officials said the Houston-based driller plans to test two additional wells in the Moorefield area in and around White and Cleburne counties.

Even though severance collections from the state's oil and gas industry have been a steady source of revenue over the past decade, it has never been a major source of tax dollars that flow into the Arkansas budget coffers. For instance, of the $2.07 billion in year-to-date gross revenues for the first three months of Arkansas' fiscal year 2018, severance collections from oil and gas represented only 0.2% of the state's tax bounty.

Unlike most states, which levy severance taxes based on market value, Arkansas' natural gas severance tax is levied on the volume produced. 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.

Crude oil production in Arkansas is taxed at 4% of market value for marginal wells that produce 10 barrels or less per day, and 5% for oil companies with greater output. TBP

$38.1 million

Arkansas severance tax revenue in fiscal year 2017

$10.7 million

Arkansas severance tax revenue in first three months of fiscal year 2018, which started July 1, 2017

20% ⇧

Increase in severance tax collections through first quarter of fiscal year 2018, compared to same period of fiscal 2017

TALK BUSINESS & POLITICS

Arkansas Energy Report

sponsored by MISO & Arkansas State Chamber of Commerce