

DRAFT MINUTES

**HOUSE & SENATE INTERIM COMMITTEES ON AGRICULTURE, FORESTRY &
ECONOMIC DEVELOPMENT**

JOINT INTERIM COMMITTEE ON ENERGY

MEETING JOINTLY

Friday, August 3, 2012

The House and Senate Interim Committees on Agriculture, Forestry and Economic Development and the Joint Interim Committee on Energy met jointly Friday, August 3, 2012, at 9:00 a.m. in the Campus Seminar Room at Phillips Community College of the University of Arkansas, 2807 Highway 165 South, Stuttgart, Arkansas.

Committee Members Present: Representative Jerry Brown, Chairman, House Interim Committee on Agriculture, Forestry and Economic Development; Representative Tiffany Rogers, Co-Chairman, Joint Interim Committee on Energy; Senators Jonathan Dismang, Mike Fletcher, Jerry Taylor and Eddie Joe Williams; Representatives John Burris, Lane Jean, Greg Leding, Homer Lenderman, Stephen Meeks, Mike Patterson, Garry Smith, and Randy Stewart.

House Interim Committee on Agriculture, Forestry and Economic Development Non-Voting Members Present: Representative Sheilla Lampkin.

Joint Interim Committee on Energy Alternate Members Present: Representative Andrea Lea.

Also Attending: Representatives Duncan Baird, John Catlett, Efreem Elliott, Billy Gaskill, Clark Hall, Buddy Lovell, Tommy Thompson and Henry Wilkins IV.

Representative Brown called the meeting to order and recognized Representative Rogers for comments. Representative Rogers welcomed members and guests and shared Arkansas Rice Expo information. She recognized Butch Calhoun, recently appointed Secretary of the Arkansas Department of Agriculture, for comments.

CONSIDERATION TO APPROVE JUNE 14, 2012, JOINT COMMITTEE ON ENERGY MEETING MINUTES [EXHIBIT C]

Representative Smith made the motion to approve the June 14, 2012, meeting minutes. Senator Williams seconded the motion, and the motion carried.

RULE FOR REVIEW: ARKANSAS OIL AND GAS COMMISSION, RULE B-1; APPLICATION TO DRILL A PRODUCTION WELL [EXHIBIT D] [HANDOUTS D1, D2 & D2b]

Mr. Lawrence Bengal, Director, Arkansas Oil and Gas Commission (AOGC), said Rule B-1 concerns setting the conductor pipe in an oil or gas well casing. Prior to the Fayetteville Shale (FS) play, subcontractors could set the pipe without a permit. Last summer, landowners in the FS area asked AOGC to amend the rule to require a permit before subcontractors set the conductor pipe. AOGC amended the rule, but Mr. Bengal said the commission never intended the change to create scheduling issues for subcontractors. The permits are valid for six months, but gas companies contact subcontractors "at the last minute" often causing them to work 18-hour days in extreme heat to set the pipe before the permit expires. The commission agreed with the subcontractors to further amend the rule to repeal the amendment, so the rule does not include setting conductor pipe as part of the permitted process.

Mr. Jim Freeze, Contractor, Alan Rathole, Inc. Service Drilling Company, said the amended rule is causing safety issues for his employees. In the last year, three workers had heat strokes because they worked long hours in extremely hot weather. Accidents on the job are more frequent now because employees tire from long workdays. The conductor pipe does not access surface water or control leaks, so no environmental issue is at stake. Subcontractors have asked oil and gas companies to allow them more time to set the conductor pipe, but they do not comply.

Representative S. Meeks said he believes this issue is a scheduling problem, and said it is important to know the proper resources are in place before drilling or fracking. He objected to reviewing the rule.

Representative Brown said Rule B-1 does not stand reviewed.

PANEL PRESENTATION "THE STATE OF ARKANSAS AGRICULTURE'S ENERGY USAGE AND CHALLENGES" - Moderator, Dr. Tony Windham, Associate Vice President and Director for Agriculture Extension, University of Arkansas, Division of Agriculture, Cooperative Extension Service. (U of A, Div. of Ag., CES) [HANDOUT E1, E2, E3 & E5]

Dr. Windham welcomed members and guests to the Rice Expo and introduced the panelists.

Dr. Michael Popp, Agriculture Economist, U of A, Div. of Ag., CES, said in terms of total U.S. farm receipts from 1950 – 2010:

- Irrigation represents 54% of fuel use on Arkansas farms; nitrogen fertilizer represents 51%.
- Fertilizer and lime are less important to agriculture in Arkansas than other states.
- Electricity and seed expenses are gaining importance in every state's total farm receipts.
- Rice farms represent the highest energy expenditures at 29%; poultry farms are second at 24%.
- Row-crop farms rely mostly on diesel fuel for power; poultry farms use more propane and natural gas; livestock operations primarily rely on electricity.

Dr. Popp noted natural gas is relatively inexpensive, but Arkansas needs a more extensive infrastructure to deliver it to farms.

The U of A, Div. of Ag., CES conducts extensive agriculture research, including:

- Studying the carbon footprint of Arkansas farms, irrigation-pump efficiency, and corn genetics.
- Examining where and how Arkansas farmers spend money and maximize resources' efficiencies.
- Conducting energy audits.
- Identifying opportunities for Arkansas farmers to use alternative and renewable fuels.
- Evaluating biofuels and educating Arkansas farmers about their use.

Mr. Marcus Creasy, President, Arkansas Cattlemen's Association, said this summer's drought is reducing forage, causing Arkansas cattle farmers to downsize herds. The quality of cattle is increasing and farmers can put more pounds on cattle than ever before. The Arkansas Beef Checkoff is a good way to measure how much beef and how many cattle Arkansas farmers sell. Fuel and fertilizer are the cattle industry's two largest expenses. Research by the U of A, Div. of Ag., CES helps cattle farmers offset these costs with conservative resource practices such as rotational and strip grazing.

Mr. Kevin McDaniel, Production Manager, OK Foods, said natural gas (NG) and liquid petroleum gas (propane) are poultry growers' largest expenses. Nearly 78% of Arkansas poultry operations do not have access to NG, so they rely on propane for heat. Mr. McDaniel encouraged legislators to find ways to build more natural gas lines in rural Arkansas, because propane is significantly more expensive than NG. Provisions in the Homeland Security Policy restrict fuel-storage vessel sizes, making farmers vulnerable to price fluctuation. During the summer, propane costs about 85¢/gallon, but in the winter it rises to more than \$2.00/gallon. Ventilation is a poultry house's biggest energy user, but innovative practices such as installing energy-efficient fans and sealing air leaks are good ways to conserve. Poultry farms depend on surface water, and most modern operations have a water system similar to rural water treatment systems.

Mrs. Margie Saul, Harry Saul Minnow Farm Inc., DeValls Bluff, AR, said Arkansas farms are responsible for about 85% of the U.S.'s baitfish production. At the industry's peak, there were more than 39,000 acres of catfish and 25,000 acres of baitfish ponds in the state. Today, catfish production in Arkansas has decreased by about two-thirds and there are about 20,000 acres of baitfish. Catfish and baitfish farming is a labor-intensive industry, and business is seasonal. Main expenses are utilities and fuel. Ms. Saul said catfish and baitfish farmers rely on well water rather than surface water, and they make every effort to conserve resources. Wild bait dealers are a major threat to organized operations because they do not own the land they use, do not pay taxes, and often harm fish during harvests. Although there is not much research data on minnow farms, the University of Arkansas at Pine Bluff conducts invaluable aquaculture research for Arkansas catfish, minnow, and bait farms.

Mr. Dow Brantley, Chairman, Arkansas Rice Federation and AR Rice Producers Group, said Arkansas grows over one million acres of rice each year, amounting to about 50 % of the U.S. rice crop. Rice is Arkansas's second highest valued commodity and the state's number one agriculture export. Nationally, the rice industry contributes \$34 million of economic activity and represents about 128,000 jobs. The U.S. remains the largest non-Asian rice exporter and the third largest rice-exporter worldwide. Energy and fertilizer are rice farmers' largest expenses. Mr. Brantley noted fuel-vessel restrictions make it difficult for rice farmers to take advantage of lower fuel prices. Many rice farmers want to implement renewable power sources, but installing the equipment is cost prohibitive. Agricultural tax exemptions are critical to the success of Arkansas farms. He explained that if Arkansas farmers had to pay sales tax on new equipment, many could never afford to upgrade and take advantage of new technologies that make farms more efficient. Regarding the 2012 Farm Bill, Mr. Brantley said the bill eliminates direct payment and affects farmers' ability to obtain financing. He said the House Committee version is preferable to the Senate Committee version, but the process is far from being over. U of A, Div. of Ag., CES research is important to Arkansas rice farmers and teaches them practices that produce higher yields. Promotional funding is vital to the Arkansas rice industry's success. He noted incorporating brown rice into the Women, Infants and Children Program increased U.S. brown rice sales by 40%.

Mr. John McAlpine, Manager & Secretary/Treasurer, Kingwood Forestry Services, Inc. - Monticello Office, said economic distress and downward spiral of the building industry in Arkansas caused many sawmills in the state to go out of business. Most of the mills that are still running operate by co-generation, using their own waste to produce energy. There is not a large market for forest residue, and its consistency presents challenges when processing it into feedstock for biofuel. Diesel fuel is a logging operation's biggest expense, and its rising cost has forced many loggers out of business. Using ethanol as an alternative to diesel fuel in large-scale operations has not been successful. Mr. McAlpine said forest products are one of the most energy-conservative building components, and the industry promotes using wood in new construction. He said this summer's drought created a lot of stress for Arkansas's forests. Timber is dying, and there is a high fire danger throughout the state.

Representative Rogers thanked the panelists and recognized special guests Russell Hall from Senator Mark Pryor's office and former Senator Bobby Glover. She encouraged everyone to visit the Rice Expo at the Grand Prairie Center.

The meeting adjourned at 11:10 a.m.