

JOINT INTERIM COMMITTEE ON ENERGY
ASU Heber Springs Campus, Student Administration Building, 1st Floor Entergy Room
101 River Crest Drive, Heber Springs Arkansas

Thursday, April 3, 2014

The Joint Interim Committee on Energy met Thursday, April 3, 2014, at ASU Heber Springs Campus, Student Administration Building, 1st Floor Entergy Room, at 1:30 p.m., Heber Springs, Arkansas.

Committee members present: Senators Linda Chesterfield Chair; Missy Irvin, Vice Chair; and John Cooper. Representatives David Branscum, Chair; Nate Bell, Bruce Cozart, Dan Douglas, and Ken Bragg.

Alternate members present: Representatives John Payton, Jon Eubanks, Andrea Lea, and Jeremy Gillam.

Also attending: Representatives Charlotte Vining Douglas, Stephen Meeks, Josh Miller, and Douglas House.

Senator Chesterfield called the meeting to order.

Representative Branscum was recognized and stated it is a pleasure to be here at Senator Irvin's request concerning the issues with propane.

Senator Irvin was recognized and welcomed and thanked everyone for attending.

CONSIDERATION TO APPROVE THE DECEMBER 16, 2013, AND DECEMBER 17, 2013, MEETING MINUTES
[Exhibits C-1 and C-2]

Representative Cozart made a motion to approve the December 16, 2013, and December 17, 2013, meeting minutes. The motion was seconded by Representative House, and without objection, the motion carried.

Dr. Chris Boyett, Vice Chancellor, ASU Heber Springs, was recognized and thanked the committee for visiting the ASU Heber Springs campus.

ISSUES REGARDING PROPANE

Mr. Larry Snodgrass, Director, Arkansas Propane Gas Association

[Exhibit D-2]

He stated propane marketers faced unprecedented supply and distribution constraints, but the Arkansas Propane Gas Association's highest priority was to safely and reliably serve over 100,000 households in Arkansas who depend on propane to heat their homes, businesses and farms. Mr. Snodgrass indicated the following factors contributed to the propane problems:

- Number of heating degree days in the season in parts of the country was at least 10% higher than the previous year and 15% higher than the year before.
- Farmers were forced to use 5 times the amount of propane to dry grain than the previous year. The weather and record crop drying usage resulted in nearly a billion gallons of additional demand on a national basis, which came from inventory.
- In recent years the U.S. transitioned from being a propane importing country to a propane exporting country. Propane is 100% made-in America fuel. The U.S. exports 1 out of every 5 gallons.
- A dramatic transition is taking place with fuel distribution infrastructure. Record production of crude oil, natural gas, and consequently refined propane from shale formations in areas that have not historically produced energy, including Arkansas, is changing the historical direction of flow of pipeline fuels. Pipelines that once carried propane and other products from the Gulf Coast where they were refined and stored are being reversed to carry other products toward the Gulf Coast.

Mr. Snodgrass stated on a national level, the propane industry, through the leadership of the National Propane Gas Association, is exploring options and creating long-term plans. The industry has organized a Supply and Infrastructure Task Force and the following working groups: Industry/Marketer Education Group, Consumer Education Group, Infrastructure and Distribution, Exports and National Inventory Analysis, and Cochin Pipeline Reversal Impact. He would like to share the work groups' findings and recommendations with the committee when they are available. Mr. Snodgrass also stated a rigorous and formal review of federal propane export policies is underway along with efforts to improve the timelines and reliability of inventory data.

Mr. Snodgrass stated there are U.S. storage capacity areas, typically in old salt caverns, that hold millions of gallons of propane with the biggest storage area in Mont Belvieu, Texas. They are also located in Conway, Kansas and a large one in New York, currently not being used. Today, the amount of propane that has been put into storage caverns is less, due to exports. 4.6 billion gallons of propane were exported in 2013 and 2.6 billion gallons in 2012. For every gallon of propane that is produced in the U.S., some is used immediately, some is put into storage, and the balance is shipped overseas. Mr. Snodgrass stated he would like to see propane companies put more into storage on their locations and for federal and state government to assist with this effort by giving tax credits, tax incentives and providing grants.

Senator Irvin asked **Mr. Tim Gammill, Gammill Oil Company**, to discuss the trucking issues encountered.

Mr. Gammill stated from January 1 to February 28, his company transported 176 loads of propane in and into Arkansas. Approximately 24-26 loads were transported from Mont Belvieu, Texas. The delivery turnaround times were tremendous due to sitting in staging lots as long as 44 hours. Governor Beebe issued proclamations during these times which allowed drivers to run longer hours as needed as long as they were safe. Mr. Gammill said he thought the pipeline reversal was a large factor in the shortage, and he does not see this changing.

He noted the Little Rock area has been out of diesel for approximately two weeks. The pipeline reversal also affected Jacksonville Air Force Base while trucks bring in 6 tanker loads per day from Texas.

Ms. Sharon Coates, Director, Arkansas Liquefied Petroleum (LP) Gas Board

[Exhibits D-1a, D-1b, D-1c, and D-1d]

Ms. Coates stated the LP Gas Board is a safety regulatory agency and does not have any control over pricing and supply. However, they can get proclamations from the Governor or the Department of Transportation (DOT). The Governor worked with the LP Gas Board in declaring a shortage, which allowed transports to come in without permitting or restrictions. This stayed in effect until the end of February 2014, and then the DOT stepped in regionally and issued proclamations on drivers' hours.

Mr. Richard Wilson, Assistant Director for Research Services, Bureau of Legislative Research **[Exhibit D-4]**

Mr. Wilson stated he was requested to review state excise tax rates on residential propane in surrounding states. He found surrounding states exempt propane for home heating from state tax. Arkansas has a 6.50% state excise tax; counties and municipalities can also levy a tax.

Senator Chesterfield asked if Arkansas did not have the 6.5% tax, what would be the fiscal impact on the budget, and Mr. Wilson said they are in the process of looking into this as it is general revenue sales tax.

Senator Irvin stated there were individuals who were on fixed incomes and could not heat their homes this winter. She also stated she was out of propane for approximately 8 weeks. She stated she would like to look at doing something in the next session; this parallels what has been done with the grocery tax.

Representative House asked Mr. Wilson to also check on the amount the state gets for natural gas and electricity. Mr. Wilson replied the rates are identical, but the usage is huge, compared to propane. He said in the past he had been asked to look into the fiscal impact of exemption of taxes for electricity and natural gas for residential use, and it was very large.

FIRST ELECTRIC COOPERATIVE

Mr. Todd Schroeder, District Manager, Heber Springs Office, First Electric Cooperative [PwrPt Presentation]

Mr. Schroeder presented a PowerPoint presentation titled, “Electric Cooperatives of Arkansas – The Mix Matters,” and noted:

- Cooperatives are owned by their members and locally managed
- Cooperatives are regulated by the Arkansas Public Service Commission
- Cooperatives serve 60% of the geographical area of the state in 74 counties and 40% of the electric consumers, with approximately 500,000 accounts
- 3,418 megawatts of generation resources
- Diverse portfolio including coal, gas, hydropower, wind and biomass

Fluctuation in cost of energy adjustments due to demand and added to bills:

- January COE- .0000093 x 1050kwh=\$.009
- February COE- .0058901 x 1050kwh=\$5.64
- March COE- .0169191 x 1050kwh=\$17.76

Mr. Schroeder stated First Electric Cooperative tries to help their members to not purchase more of their product. They provide energy efficient products and services such as walk through energy audits, diagnostic energy audits, sale of marathon water heaters, home improvement loans, and heat and air filter change program.

Mr. Schroeder stated Arkansas Electric Cooperative Corporation (AECC) generation facilities are:

COAL GENERATION	NATURAL GAS GENERATION	HYDRO-ELECTRIC	POWER PURCHASE
Independence, Newark	Thomas B. Fitzhugh, Ozark	Clyde Ellis, near Van Buren	Flat Ridge 2 Wind Farm, Kansas
Flint Creek, Gentry	Carl E. Bailey, Augusta	Electric Cooperatives of AR, near Dumas	Eco-Vista Landfill, Biomass, Springdale
White Bluff, Redfield	John L. McClellan, Camden	Carl Whillock, Morrilton	
John W. Turk, Jr., Fulton	Fulton CT-1, Fulton		
	Elkins Generating Station		
	Harry L. Oswald, Wrightsville		
	Magnet Cove		

Mr. Schroeder stated because of AECC’s diverse portfolio, they can provide some of the cheaper electricity in the country. AECC’s average fuel cost in 2013 for natural gas was \$3.94/Million Metric British Thermal Units (MMBtu) and \$2.59/MMBtu for coal. He noted the reliability and consistency of coal and said electricity would cost 16% more in 2025 if coal plants were retired, meaning an additional \$150-\$200 annual cost for the homeowners.

Mr. Schroeder asked members to submit comments to the Environmental Protection Agency regarding concerns about proposed rules for coal-generating facilities.

Representative Bell (referring to earlier slide showing states’ average residential retail price of electricity) asked for data that indicated if there was a relationship between the percentage of coal and their mix and those rates. Mr. Schroeder will provide this information.

Representative Bell also asked about the use of lignite.

Ms. Sandra Bryd, Vice President, Public Affairs and Member Services, Electric Cooperatives of Arkansas, stated Arkansas has looked at lignite, but the cost is higher than the cost for their existing resources. There are also some emission issues with its use.

UPDATE ON FAYETTEVILLE SHALE PLAY

Mr. Danny Ferguson, Vice President, Government and Community Relations, Southwestern Energy Company (SWN), noted the following:

- Over the next 25 years oil and natural gas will account for almost 60% of the U.S. energy needs.
- By 2040 there will be a decrease in oil, a slight decrease in coal, a fair increase in natural gas, and a significant increase in biomass and renewables. Biomass will be at 10.2% of our energy, natural gas 28%, and oil about 31%.
- Global energy demand for developed countries, including the U.S., are not projected to increase their demand for energy very much by 2040. Much of the increase in energy demand will be in under-developed countries and primarily China and India. In 1990, China and India combined only accounted for approximately 10% of the energy consumed in the entire world. By 2040 that is projected to go from 10% to almost 35%. China is now the largest energy consumer in the world, and by 2040 is projected to consume more than twice as much energy as the U.S.
- Of the 25 largest oil and gas companies in the world, 19 are nationalized, meaning they are owned by their government. Only 6 of the 25 are publicly owned or privately traded companies. All ten members of Organization of the Petroleum Exploring Countries (OPEC) are nationalized companies.
- U.S. has the largest recoverable fossil fuel reserve; slightly more than Russia and more than two times Saudi Arabia.
- January 2014 had a \$23.1 billion trade deficit, of which \$11.3 billion was from OPEC. If the U.S. cut oil imports in half, \$139 billion a year could be put back into the U.S. economy.
- In 2012 the average savings for American households was \$1200 a year. This is projected to be \$3500 a year by 2025.

Mr. Ferguson stated Shale Gas has had the following effect on the U.S.:

- Natural gas accounts for 2% of the average U.S. manufacturing costs today, In Europe it accounts for 5.8%.
- Companies are moving back to the U.S. because the energy utility managed costs in the U.S. is out-weighting the cheaper labor costs in some third world countries.
- There are 29 commercially producing Shales in North America.
- There were 35 drilling rigs in the Fayetteville Shale in 2011, today there are 9, and Fayetteville Shale is dry shale.
- SWN has over 1400 employees and has invested over \$9.5 billion in the Fayetteville Shale since 2004. The budget for 2014 is \$900 million; in 2011, it was \$1.3 billion.

Mr. Steve Thompson, Financial Advisor, Edward Jones, stated within Sharp, Fulton, and IZARD counties the tax rates for delivered propane are between 8.5% and 10.5% when adding state and local taxes. He noted the consumers cannot afford the price spikes and this also pertains to electric costs. Propane supply will not keep pace with demand and storage capacity will be out-stripped over the next 3 years. Mr. Thompson suggested considering a measure similar to what was done with the Arkansas grocery tax.

There being no further business, the meeting adjourned at 2:45 p.m.