

2019 Annual Report



From the President



Richard P. Walt
J. David Reynolds Co.

Since its birth, AIPRO has strived to serve the Arkansas oil and natural gas community with a unified voice. It has been my honor to work with our staff, board, and members for the betterment of our industry as AIPRO continues into its second decade. I credit the past leadership and membership for building the

foundation; sustaining it in hard times; and now pushing this organization into its future.

We enter 2020 on sound financial footing and continue to offer our members value for their contributions. This year, AIPRO successfully represented our industry during the General Assembly session, which AIPRO Executive Director Rodney Baker will detail later in the report. Gov. Asa Hutchinson's restructuring of state government held the focus of this session, but issues particular to our industry were addressed as needed, such as fairly assessing property taxes

on minerals. This issue is ongoing and we will stay engaged with stakeholders in 2020 as we work for fair solutions.

Transition also marked the year. We welcomed Flywheel Energy, Merit Energy and Mission Creek Resources to the state. They and others have joined as willing partners in our mission and their leadership has added value to this organization and the state business climate. We also revamped our Annual Meeting to a one-day format and believe we have a successful formula for future meetings.

Our Arkansas Energy Rocks! outreach and teacher training was again wildly popular and successful. The South Arkansas Teacher Energy Education Workshop was a complete home run and our STEPS program continues to add value to worker safety in the state of Arkansas.

One Capitol Hill insider said, "When there is an oil and gas issue AIPRO is sought out first..." This recognition was hard won over the past decade. Let's build on that reputation as we head into 2020 and let us know how we can improve and do the work that needs to be done.

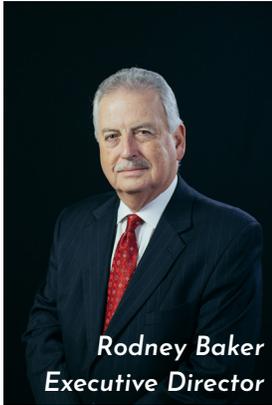
A handwritten signature in blue ink that reads "Richard P. Walt".

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www.aipro.org

From the Executive Director



Rodney Baker
Executive Director

AIPRO had another good year in 2019. We were successful in our legislative program; membership remained level to slightly higher; a successful teacher workshop was conducted in South Arkansas; and demand for classroom presentations by Arkansas Energy Rocks! increased more than 21 percent for the current school year.

Our annual meeting changed to a one-day format. The Program Committee secured outstanding speakers covering a variety of topics. The result was a significant increase in attendance and a great opportunity for networking and catching up with others in our industry.

GENERAL ASSEMBLY

AIPRO was once again the unified voice of the oil and gas industry in Arkansas, representing our members on issues including theft and damage of property and a variety of bills affecting real property assessment. We benefited from an outstanding working relationship between legislative leaders and AIPRO's leadership that allowed us to successfully communicate our support or concerns about various issues.

We were pleased to sponsor committee dinners for the Energy and Agriculture, Forestry and Economic Development Committees. These events provided opportunities to meet with lawmakers in a more relaxed environment, to answer questions and to discuss ideas outside of the Capitol.

AIPRO members raised the need to increase penalties not only for theft of property but also for damages to property committed during the theft. Often, the cost of the damage done during the theft and/or the loss of production due to the damage far exceeds the actual value of the items stolen. Rep. Lane Jean and Sen. Trent Garner

shepherded legislation that enhances the penalty for theft of oil and gas equipment and petroleum-related property. It also accounts for damages and if the items are moved across state lines.

AIPRO and its leadership spent many hours meeting with and discussing proposals by the Association of Arkansas Counties (AAC) relating to providing division orders to county assessors; how real property taxes are handled during an appeal; and jurisdiction of County Equalization Boards. AIPRO was able to work out problem areas in the legislation that prevented us from having to oppose the bills. As finally written, AIPRO was neutral on the AAC bills.

One far-reaching effort that will have a long-term impact on our industry and others was the Governor's proposals on the four Ts: Teachers, Taxes, Transportation and Transformation.

While it's easy to see how industry benefits from improving education, lowering taxes, improving highways and streamlining government, it is also important to remember that some roles within state government and its agencies have changed. Many agencies are no longer stand-alone agencies but part of a larger entity. In some cases, this may affect who you contact or where you go, or the processes you encounter for decisions or guidance. It may well be better, but it may not be as familiar. Something to think about.

Following is a summary of bills tracked during the 2019 session.

AIPRO-SUPPORTED LEGISLATION

HB1720 by Rep. Lane Jean and Sen. Trent Garner to include incidental damage to oil and gas property or other damages to the owner when a theft occurs. **HB1720** is now Act 611. This was an AIPRO-requested bill.

ASSOC. OF ARKANSAS COUNTIES BILLS

HB1559 by Rep. Lane Jean establishes the

requirements of and for providing Division Orders to the County Assessors. [HB1559](#) is now Act 538.

[HB1562](#) by Rep. Meeks amends the law concerning payment of taxes during a real property assessment appeal. [HB1562](#) is now Act 657.

[HB1659](#) by Rep. Boyd amends the Jurisdiction of the County Equalization Boards. [HB1659](#) is now Act 509.

BILLS OF INTEREST

[HB1876](#) and [SB597](#) to amend the Revenue Stabilization Law. Distributes \$5.75 billion in general revenue for state programs for the next fiscal year. That's a 2.2% increase over the 2019 budget year or \$124.1 million more. Most of the increase for FY2020 will go to two areas. The Department of Human Services budget will increase by \$68.2 million and the Public-School Fund will receive an additional \$30.7 million.

Because Arkansas is a balanced-budget state, general revenues are placed into three categories, A, B and C, to prioritize spending. All of category A must be funded prior to any spending in category B. Category B then must be funded before any spending in category C. The bill breaks the funds between categories as follows:

- Category A \$5,600,000,000
- Category B \$ 124,000,000
- Category C \$ 14,700,000

[SB576](#) by Sen. Bart Hester and Rep. Dan Douglas, the Internet Sales Tax bill, is now Act 822. The bill:

- Requires remote sellers and marketplace facilitators to collect sales tax;
- Extends net operating loss carryforwards to prevent double taxation;
- Adopts single sales factor apportionment;
- Reduces the corporate income tax from 6.5 percent to 5.9 percent.

[SB345](#) by Sen. Jim Hendren to reduce the credit

available to offset the accident and health insurance premium tax; and to provide for a cap on the credit available to offset the accident and health insurance premium tax. [SB345](#) is now Act 457.

[SB447](#) by Sen. Jim Hendren to increase the homestead property tax credit; to maintain funding for current property tax relief; to provide for the use of excess funds in the Property Tax Relief Trust Fund; and to declare an emergency. [SB447](#) is now Act 808.

[SB560](#) by Rep. Blake Johnson to amend the administration of state taxes: to amend the administrative hearing procedures for state taxes; to create the Tax Appeals Commission Act; and to create a fund for the Tax Appeals Commission. [SB560](#) was amended on the last day and sent to interim study.

[SB561](#) by Sen. Jim Hendren to create the Arkansas Tax Reform Act of 2019; and to reform the sales tax, income tax, property tax, and franchise tax laws of the state. [SB561](#) is now Act 819.

[SB571](#) by Sen. Jim Hendren and Rep. Lee Johnson to create an earned income tax credit, an increased standard deduction, and an individual income tax reduction; and to provide funding for income tax reductions through new taxes on cigarettes and e-cigarettes. [SB571](#) was returned to the Senate, where it died upon adjournment.

[HB1953](#) by Rep. Michelle Gray to adopt recent changes to the Internal Revenue code. [HB1953](#) is now Act 870.

TRANSFORMATION

[HB1763](#) by Rep. Andy Davis to create the Transformation and Efficiencies Act of 2019; to establish cabinet-level departments; to transfer state entities; and to declare an emergency. [HB1763](#) is now Act 910.

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11th Annual Meeting

Thank you to the sponsors, attendees, speakers and program committee members who helped make AIPRO's 11th Annual Meeting, held October 1 at the Hilton Garden Inn in West Little Rock, a success. We were pleased to offer the meeting over the course of one day, providing focused content and make the best use of members' time.

The program featured an outstanding agenda of speakers that provided insight into sustainability, technology, history and public policy on the state and national levels. The lunch speaker was T.M. "Roe" Patterson, president and CEO of Basic Energy Services, whose comments centered around *Crude Blessings: The Amazing Life Story of Glenn Patterson, American Oilman*, a book he wrote about his father. Each meeting attendee received a copy of the book.

You can view the following presentations online at www.slideshare.net/AIPROorg/presentations:

- Fracking Unconventional Rocks: Influencing Dimensions, Steering Direction
Bruce Randall, Coiled Tubing Specialties
- Proposed Rules for Gathering Lines
Chris Kuhman, API



- Madhatters Meet Minsky and Mendeleev: Sustainability is Not Possible Without Hydrocarbons
Colin Fenton, Chairman, TPH Commodities, Tudor, Pickering, Holt & Co.

Other speakers included Caleb Stanton, with Gov. Hutchinson's office, Sen. Bruce Maloch and Arkansas Speaker of the House Rep. Matthew Shephard. Also, Arkansas Energy Rocks! Director Paige Miller provided an overview of the industry's education and outreach efforts.

See a photo album from the annual meeting online at bit.ly/37Hgqoe.



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Awards

The Arkansas Energy Education Foundation presented two awards at the AIPRO Annual Meeting (read more on page 7):

- Arkansas Energy Rocks! Outstanding Educator - *Jennifer White, Benton*
- Arkansas STEPS Network Award *Robert Kuri, Triple Transport Inc.*



Left to right: Griffin Hanna, with Hanna Oil & Gas Company, and Howard Vernon, with Toklan Oil and Gas Corp.



Left to right: AIPRO President Richard Walt, with J. David Reynolds Co.; Janet McAlee, with Mission Creek Resources; and Warner Smith, with WTS Petroleum Services.

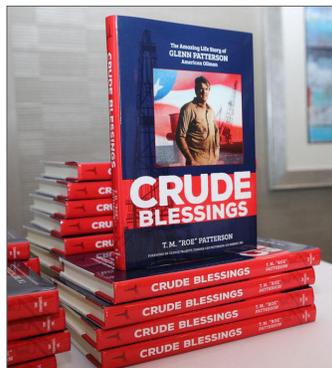


Left to right: Jake Baker, Dan Zilmer and Jay Prudhomme, all with Merit Energy Company.



Left to right: Andy Miller and Ryan Stacks, with Flywheel Energy, and David Reynolds, with J. David Reynolds Co.

Roe Patterson shares stories about his father's legacy in the oil and gas industry.



Arkansas Energy Education Foundation

Arkansas Energy Rocks!

The Arkansas Energy Education Foundation (AEEF) was created to promote and support the oil and natural gas industry in Arkansas. AEEF funds are used to get our message to students and educators through the Arkansas Energy Rocks! program.

"In the 2018-2019 school year, we reached more than 7,400 students at 54 schools with positive information about the industry's economic and environmental benefits," said Paige Miller, Arkansas Energy Rocks! director.

The Teacher Energy Education Workshop (TEEW) was held June 4-5 in South Arkansas. Twenty-two educators participated in the two-day workshop. They heard from industry representatives, the Arkansas Oil and Gas Commission, conservation organizations, a local producer panel and



economic development professionals. The workshops also included field tours.

To sustain and strengthen our work, we need your help. As a member of the state's oil and natural gas production community, you recognize the need to share with others the importance of who we are and what we do to help meet energy demands on the state, national and global levels. Read more and find a donation form online at www.aipro.org/education.



"The workshop was well organized; the presenters were very knowledgeable and informative. It was all very enjoyable!"

"I really enjoyed the hands-on activities and the field study and tour!"

- Educators who participated in 2019 TEEW

2019 AEEF Contributors

THANK YOU!

- Arkansas Oil and Gas Commission
- Flywheel Energy LLC
- XTO Energy Inc.
- Arkansas Petroleum Council/API
- Hanna Oil & Gas Company
- ARKLATX Operating Co. Inc.
- Lee-Spears Operating, LLC
- Healy Energy
- Hydrostatic Oilfield Testing, Inc.

Arkansas Energy Education Foundation Awards

The Arkansas Energy Education Foundation presented two awards at the AIPRO annual meeting in Little Rock on October 1.

Benton teacher Jennifer White was honored as the Arkansas Energy Rocks! (AER!) Outstanding Educator for her work to promote Arkansas's energy resources as a 3rd-grade teacher at Ringgold Elementary School. See a video about Jennifer at bit.ly/37OwaWp.

Arkansas STEPS Network presented an award to Robert Kuri, health, safety and environmental manager for Triple Transport Inc. in Judsonia, for his work to promote safety, health and environmental improvement in the exploration and production of oil and natural gas. See a video about Robert at bit.ly/2s97hWt.

Learn more about Arkansas Energy Rocks! at www.arkansasenergyrocks.com and the Arkansas STEPS Network at www.arstepsnetwork.org.



TOP (left to right): AIPRO President Richard Walt; AEEF Secretary Chris Rogers; Benton educator Jennifer White; and AER! Director Paige Miller.

BOTTOM (left to right): Charles Allshouse; Robert Kuri; AEEF Secretary Chris Rogers; and AIPRO President Richard Walt.

Executive Director's Message, cont. from page 3

TRANSPORTATION

SB336 by Sen. Terry Rice and Rep. Mike Holcomb, part of the Governor's Highway Plan, is now Act 416.

RED TAPE REDUCTION WORKING GROUP

SB451 by Sen. John Cooper to amend the laws on criminal background checks for professions and occupations to obtain consistency regarding criminal background checks and disqualifying offenses for licensure. **SB451** is now Act 990.

CONSTITUTIONAL AMENDMENTS

The question of which three proposed constitutional amendments legislators will refer to the people in the next general election has been decided. They are:

Highway Funding

HJR1018 by Sen. Lance Eads and Rep. Jeff Wardlaw to continue a one-half percent sales and use tax for the state's highways, county roads and city streets. This is the second part of the Governor's Highway Plan and will generate about \$205 million for highways.

Term Limits

SJR15 by Sen. Alan Clark and Rep. Jim Dotson. If passed in the next General Election, it will:

- Set term limits for newly elected legislators to 12 consecutive years;
- Allow a return after a 4-year waiting period;
- Allow current members of the legislature to finish the 16 years of consecutive service available under the current term limits laws;
- Limit future term limits changes to the General Assembly.

Ballot Initiative Reform

HJR1008 by Rep. DeAnn Vaught and Sen. Mathew Pitsch. If passed in the General Election, it will:

- Repeal the 30-day signature cure period;
- Move the filing deadline for initiatives and signatures to January 15 and set a deadline to file legal challenges on April 15, both dates in the General Election year;
- Increase the vote majority required by the Legislature to make amendment referrals from a simple majority to a 3/5ths (60%) majority;
- Increase the number of counties from which a set number of signatures are required from 15 counties to 3/5ths of the counties (45).



South Arkansas Fish Fry

More than 60 AIPRO members and friends gathered for good food and fellowship and honored members of the Arkansas Oil and Gas Commission at the 10th Annual South Arkansas Fish Fry on April 22 at the Arkansas Museum of Natural Resources in Smackover. Thank you to Delek US for sponsoring the event.

South Arkansas legislators Sen. Trent Garner, House Speaker Matthew Shepherd and Rep. Lane Jean were also in attendance.

See a video from the event at bit.ly/2Nq75cX.

2019

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Howard Vernon - Toklan Oil and Gas Corp.

Fayetteville Shale

Justin W. Cope - Flywheel Energy, LLC
Andy Miller - Flywheel Energy, LLC
Dan Zilmer - Merit Energy Company



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