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2023

annual report

ANNUAL REPORT

2023

FROM THE PRESIDENT



ANDY MILLER
Flywheel Energy, LLC

AIPRO celebrated its 15th birthday in 2023! That is hard for me to believe (it is also hard for me to believe that I am 59). As I arrive at the end of my second term as AIPRO President, I'd like to share a few thoughts about our organization and industry, maybe even reminisce a little.

Before AIPRO was formed, oil and natural gas leaders had long recognized the need for a statewide organization to represent the industry. In the early 1990s, Rob Reynolds and a handful of other South Arkansas leaders met at the Museum of Natural Resources in Smackover to discuss forming an organization. It would be a few more years before governmental regulation and policy pushed our industry to a point where we were able to get all three production regions in the state to come together and form AIPRO.

AIPRO serves an important function and truly has become the voice of the oil and natural gas industry in Arkansas. It is something we can all be proud of as we examine our record of success. Whether it is advocating a position or defending our industry at the state or national Capitols, working on fair taxation, working to stop burdensome over-regulation or doing educational outreach to tell our positive story, AIPRO has done important work.

Early on, there was great pushback from environmentalists on our industry's use of new technology (horizontal drilling and hydraulic fracturing). AIPRO was there to help educate our elected officials and the public. There have been many attempts to over-regulate and overtax our industry. Together, through AIPRO, we have represented and defended oil and natural gas, defeated proposed draconian environmental laws and negotiated fair taxation.

All industries, not just ours, tend to cut back on associations that represent them during lean times. That is the worst time to weaken these organizations and their voice. When you are perceived as weak, your adversaries go on the offensive. I am proud of the way we have continued to support AIPRO, even during times of low commodity prices and severe downturns. We tightened our belts and modified the way we operate to keep AIPRO functional.

With a 15-year record of success, we now know that we are stronger speaking with one voice than we are working individually. I want to challenge all of us to continue working on membership—the lifeblood of any organization. We all know colleagues who should be members of AIPRO. Give them a call, or better yet, go see them and ask them to become members. Let them know what AIPRO does on their behalf.

Also, I want to encourage AIPRO members to strengthen the Arkansas Energy Political Action Committee. It allows us to support elected officials who are friendly to our industry. In today's political environment, we can all see that money is the moving force in politics, whether we like it or not. Our adversaries certainly know this and are busy trying to defeat us.

All segments of our industry have benefited greatly from having AIPRO represent them—oil, natural gas and royalty owners. I am proud to be a part of this organization and have enjoyed serving as your President. Thanks to all of you and your work to make this organization great.

AIPRO truly is the voice of our industry in Arkansas. Let's work to keep our organization strong. We all need it to be.

EXECUTIVE DIRECTOR'S MESSAGE

Without a doubt, 2023 was an eventful year for the oil and natural gas industry in Arkansas, with a legislative session and challenges on the federal level. The Biden administration continues to rush the development of new harmful regulations and AIPRO's Regulatory Committee has been fully engaged in the preparation of testimony and comments about our concerns on proposed greenhouse gas regulation and the methane tax coming in 2025.

AIPRO is closely monitoring proposed regulations as they advance through the rulemaking and implementation process. We are working with the Independent Petroleum Association of America and the American Petroleum Institute to shine light on proposals that, if unchanged, will result in fewer active wells. These efforts are ongoing and will likely end in legal actions.

We owe a big "thank you" to the AIPRO Board and members who traveled to the State Capitol from three states to present and defend AIPRO's position in defeating HB1549 by Rep. Rick Beck. This bill was a reworked version of HB1725, defeated in the 2021 session. It was designed to change the existing law on how royalties are paid, effectively altering existing leases. This issue is also the subject of litigation before the courts. If unsettled there, it will likely reappear in the 2025 session.

The Arkansas Energy Education Foundation's Arkansas Energy Rocks! program has reached a pre-pandemic level of classroom visits. In the 2022-2023 school year, the program visited 47 schools. The Teacher Energy Education Workshop was held June 6-7 in El Dorado, with 16 teachers from across the state in attendance.

A special thanks to the AIPRO Program Committee for developing an outstanding agenda for the Annual Meeting in October. This year's meeting was held at the Little Rock Marriott and featured speakers on economic trends, impacts of the Inflation Reduction Act, regulatory and legislative affairs and the Arkansas Oil and Gas Commission's abandoned well program. Arkansas Department of Energy and Environment Secretary Shane Khoury and Chief Administrator for Energy Larry Bengal provided an update on the department's programs and activities.

The Arkansas Energy Political Action Committee (AEPAC) has been active in the last two election cycles. In the 2022 election, AEPAC supported 36 candidates with nearly \$14,000 in campaign contributions. AEPAC allows AIPRO to express appreciation and support for legislators and candidates who support our industry. An increase in contributions from AIPRO members has allowed the industry to expand its impact. I encourage every AIPRO member to have a line item in their budget to support AEPAC. Even small contributions add up to enhance the industry's influence.

In the 2024 election, Arkansans will vote on 18 Senate seats and 100 House seats, over half of which are contested. Now is the best time to get to know your legislators or future legislators, as the case may be. A strong relationship is invaluable when discussing issues or educating lawmakers about your business. The future of this industry could depend on it.

AIPRO is proud to represent the oil and natural gas industry and we stand ready to work for and with our members.



RODNEY BAKER
Executive Director



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ANNUAL MEETING

The 60+ attendees at AIPRO's 15th Annual Meeting, held October 12 in Little Rock, heard from experts on global, national, and state-level issues and spent valuable time networking with industry leaders from the state's production areas. Once again, the Program Committee, AIPRO leadership and staff drew on their connections and creativity to put together an excellent agenda.

2023 Program Committee

- Catherine Nobles Medlock, MacFarlane Company - USA, LLC
- Jeff Applekamp, Energy Transfer
- Jeremy Fitzpatrick, Flywheel Energy
- Dave Gibbs, Mission Creek Resources
- Griffin Hanna, Hanna Oil & Gas
- Jay Prudhomme, Merit Energy Company

See an online photo album at bit.ly/3vwupyj.

This signature networking event is possible because of generous meeting sponsors and we are grateful for their continued support. We appreciate everyone who made time to spend all or part of the day at the meeting.

The following speakers' presentations are available online:

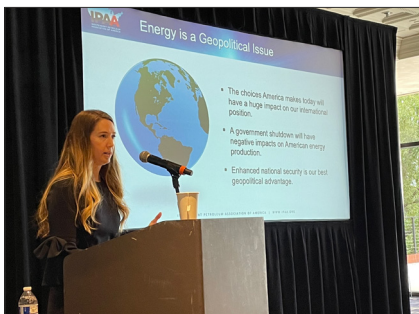
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Mallori Miller, Vice President - Government Relations, IPAA
- **Arkansas Orphan Wells Program** - bit.ly/4804rF0
Gary Looney, Arkansas Oil and Gas Commission
- **State of the Arkansas Department of Energy and Environment and Arkansas Oil and Gas Commission** - bit.ly/3U1Addq
Secretary Shane Khoury, Arkansas Department of Energy and Environment, and Lawrence Bengal, Chief Administrator for Energy



ABOVE: Arkansas Speaker of the House Matthew Shepherd.

MIDDLE: Mallori Miller, VP - Government Relations, Independent Petroleum Association of America.

RIGHT: Secretary Shane Khoury, Arkansas Department of Energy and Environment.



2024 Officer and Board Election

During the annual business meeting, AIPRO members elected the following officers and board members representing the state's three production areas:

President	Jay Prudhomme, Merit Energy Company
Secretary	Nathan Caldwell, Weiser-Brown Operating Co.
Past President	Andy Miller, Flywheel Energy
South Arkansas	Chris Rogers, Mission Creek Resources
Arkoma	Howard Vernon, Hanna Oil & Gas
Fayetteville Shale	Mike Callan, Stephens Production Company Jeremy Fitzpatrick, Flywheel Energy Eric Welsch, Merit Energy Company



Incoming AIPRO President Jay Prudhomme (left), with Merit Energy Company, presents a gavel to President Andy Miller (right), with Flywheel Energy, in recognition of his years of service as AIPRO president.



Program Committee Chairperson Catherine Nobles Medlock, with MacFarlane Company, USA - LLC.



Left to right: Tom Huetter, with Harbor Environmental; Dave Gibbs, with Mission Creek Resources; Rick Bauman, with ARKLATX Operating; and Arkansas Speaker of the House Matthew Shepherd.



Left to right: Tommy McWilliams, with Production Services, Inc.; David Reynolds, with J. David Reynolds Co.; Judd Dodson, with Delek US; and Rick Bauman, with ARKLATX Operating.



Left to right: Chris Rogers and Brent Barnett, both with Mission Creek Resources; and Jay Prudhomme, with Merit Energy Company.



Left to right: Andy Miller, Jason Carrington and Andy Beck, all with Flywheel Energy.



Left to right: Jeff Corley, Doug Gathright and Mike Corley, all with Corley Trust, LLC.



ARKANSAS ENERGY ROCKS!

The Arkansas Energy Rocks! program had a successful year, returning to pre-pandemic levels of classroom visits and holding its annual Teacher Energy Education Workshop. These efforts are supported through the Arkansas Energy Education Foundation, a 501(c)(3) organization created to fund public education and outreach (see a list of donors on page 8).

In the 2022-2023 school year, the program visited 19 schools in the fall semester and 28 schools in the spring semester, reaching thousands of students. For the fall semester of 2023, the program visited 15 schools by the end of December, with more high schools than in previous years.

“Job opportunities in energy production and energy issues being in the forefront of public debate has caused upper-level teachers to realize that it will help their students to hear about the industry,” said Arkansas Energy Rocks! Director Paige Miller.

Sixteen educators from around the state attended the 2023 Teacher Energy Education Workshop, held June 6-7 at the Arkansas Oil and Gas Commission’s Regional Office in El Dorado. They received 14 professional development hours.

Additions to this year’s workshop agenda included presentations about bromine and lithium production and a Delek refinery tour.



Outstanding Educator

The Arkansas Energy Rocks! program honored Lake Hamilton Middle School teacher Lynn Strong (right) with its 2023 Outstanding Educator Award.

“We know Lynn’s current and former students will remember her as an educator who got them excited about science and brought in real-world examples to help them apply knowledge to everyday life,” Program Director Paige Miller (left) said.

Strong, in her 32nd year of teaching, has taught in the Lake Hamilton School District for seven years. She said she plans to share the award funds with the rest of the science department to purchase beakers and other equipment and supplies.



2023 Teacher Energy Education Workshop

AIPRO: A HISTORY OF SUCCESS

As the only organization representing the state's oil and natural gas industry, AIPRO is successful because it provides a united voice for its members' interests in governmental and regulatory affairs and supports a variety of programs that promote the industry. Below is an overview of AIPRO's accomplishments on behalf of its members since the organization formed 15 years ago.

As Andy Miller wrote in his President's Message, "With a 15-year record of success, we now know that we are stronger speaking with one voice than we are working individually. I want to challenge all of us to continue working on membership—the lifeblood of any organization. We all know colleagues who should be members of AIPRO. Give them a call, or better yet, go see them and ask them to become members. Let them know what AIPRO does on their behalf."

Digital and printed copies of this document (and AIPRO membership forms) are available for AIPRO members to share with others.

Contact Anna Swaim at aswaim@aipro.org or 501.680.5154.



2023: REGULATORY CHALLENGES

The Biden administration continues to rush the development of new harmful regulations and AIPRO's Regulatory Committee has been fully engaged in the preparation of testimony and comments about our concerns on proposed greenhouse gas regulation and the methane tax coming in 2025. AIPRO is working with the Independent Petroleum Association of America and the American Petroleum Institute to shine light on proposals that, if unchanged, will result in fewer active wells.

2023: LEGISLATIVE SESSION

The session saw the introduction of legislation similar to the bill filed in 2021 by Rep. Rick Beck, altering the 1985 law that determines how royalty payments are made. AIPRO's Governmental Affairs Committee coordinated in-person testimony before the House Agriculture, Forestry and Economic Development Committee against the bill. It failed to pass and was referred to interim study. AIPRO also hosted a dinner for members of the Senate Agriculture, Forestry and Economic Development Committee.

2021: LEGISLATIVE SESSION

AIPRO leadership and members carried AIPRO's message in the Legislature by giving in-person testimony before various committees. We successfully confronted HB1725, by Rep. Rick Beck, designed to change the law on how royalties are paid, effectively altering existing leases. AIPRO also passed HB1755, by Rep. Lane Jean and Sen. Trent Garner, which changed the law governing the tax treatment of producing minerals and defined and set the tax treatment for oil wells and production equipment. Both issues were major successes and illustrate what AIPRO and its engaged membership can accomplish.

2019: LEGISLATIVE SESSION

AIPRO members raised the need to increase penalties for theft of property and damage to property committed during a theft. Often, the cost of the damage and/or the loss of production far exceeds the value of the items stolen. Rep. Lane Jean and Sen. Trent Garner shepherded legislation that enhanced the penalty for theft of oil and gas equipment and petroleum-related property. AIPRO and its leadership spent many hours discussing proposals by the Association of Arkansas Counties related to division orders, how real property taxes are handled during an appeal and jurisdiction of County Equalization Boards. AIPRO was able to work out problem areas that prevented us from having to oppose the bills.

ARKANSAS ENERGY PAC

To enhance the oil and natural gas community's presence in the political arena, AIPRO increased funding for the Arkansas Energy Political Action Committee (PAC). Through this PAC, AIPRO is able to provide contributions to state-level candidates who support the industry.

2018: AACD STUDY

The Arkansas Assessment Coordination Department (AACD) hosted a public meeting in Little Rock, where consultants reviewed a report on the valuation of oil and natural gas and its recommendations. The industry had an excellent turnout. Because of the questions and challenges to the report, the consultants concluded the meeting early. Since that time, AACD has distanced itself from the report.

2017: EMINENT DOMAIN

During the legislative session, AIPRO's biggest success was ensuring the defeat of HB2086, an eminent domain bill that would have enacted burdensome regulatory measures for pipeline projects.

2014: ARKANSAS ENERGY EDUCATION FOUNDATION

Formed in 2014, the Arkansas Energy Education Foundation promotes the oil and natural gas industry. Thanks to generous supporters, foundation programs have reached thousands of Arkansans, hundreds of educators and thousands of school children through the Arkansas Energy Rocks! program and www.arkansasenergyrocks.com.

2012: SEVERANCE TAX BALLOT ISSUE

AIPRO successfully opposed efforts by Sheffield Nelson to place a severance tax increase on the 2012 General Election ballot. This Act would have increased Arkansas's severance tax to a flat 7% and cost producers and royalty owners millions in additional tax dollars, damaged the state's economy and threatened thousands of Arkansas jobs.

2011: SEVERANCE TAX LEGISLATION

AIPRO lead the fight to oppose HB 1992 in the 2011 legislative session to increase gas severance tax for the second time in 30 months.

2011: ENVIRONMENTAL LEGISLATION

In the 2011 legislative session, environmental groups including the Arkansas Public Policy Panel and Citizens First Congress had a package of seven bills introduced to increase the environmental community's influence on natural gas exploration and drilling. As a result of the efforts against these bills, six of the bills were defeated and referred to interim study and one was never considered.

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Chris Rogers, Mission Creek Resources

Richard Walt, J. David Reynolds Co.



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