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Report: Investment In Fayetteville Shale Exceeds Projections

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LITTLE ROCK — Despite low prices and a higher severance tax on natural gas, the economic impact of natural-gas exploration and production in the Fayetteville Shale play exceeded projections between 2008 and 2011, according to a report released Tuesday.

The report by the University of Arkansas' Center for Business and Economic Research is a follow-up to a 2008 report that found natural gas companies expected at the time to invest \$9.9 billion in Fayetteville Shale activities by 2011. In fact, the companies invested \$12.7 billion during that time, or 29 percent more than they had planned, a new survey found.

The 2008 report projected that economic activities related to Fayetteville Shale activity in north-central Arkansas from 2008 to 2011 would generate \$14.2 billion and that state and local taxes resulting from the activity would total \$1.2 billion. The study released Tuesday estimates total economic activity at \$18.5 billion and state and local taxes at nearly \$2 billion.

"The impact was larger than our initial study projected, even though prices collapsed," said Kathy Deck, director of the Center for Business and Economic Research.

Deck said natural-gas prices were in the range of \$6 to \$10 per million BTUs when the 2008 study was conducted, but now they hover around \$2.

In 2009, an increase in the state severance tax on natural gas took effect, raising the rate from three-tenths of a cent per 1,000 cubic feet to 5 percent of market value, with a number of exemptions.

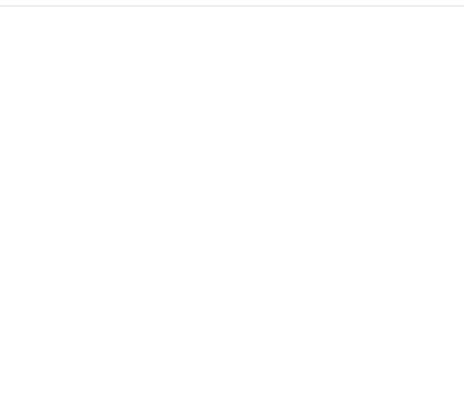
Deck said that when the 2008 survey was conducted, the price of natural gas and the possibility of a severance tax hike were the two biggest unknowns.

"The severance tax did go up, but they continued to invest even under those conditions," she said.

The Arkansas State Chamber of Commerce-Associated Industries of Arkansas sponsored both surveys.

The new report comes as former gas company executive Sheffield Nelson is collecting signatures for a proposed initiated act to raise the severance tax to 7 percent and eliminate exemptions. The state chamber is leading a group that opposes Nelson's proposal.

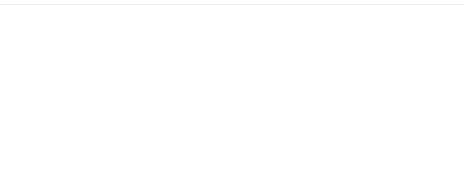
Chamber President Randy Zook called the UA report released Tuesday "a terrific contribution



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to the conversation about whether or not to change the severance tax.”

“I think it’s absolute proof that (Fayetteville Shale activity) has had more impact on Arkansas’ economy than any other single factor over the last five years,” he said.

Zook said the report suggests that without the Fayetteville Shale activity, “Arkansas would have looked like a whole lot of the rest of the country, but we’ve been fortunate to have that activity going on in the state during this historic recession that we’re still working our way out of.”

Raising the severance tax would make Arkansas less competitive with other shale plays around the country, he said.

Nelson said Tuesday that if natural gas companies invested even more than they expected to in the face of plummeting prices, “it shows how much profit is built into the refining of natural gas.”

Nelson contended the state is collecting “a pittance” on companies’ development of its natural-gas resources and said a tax increase from 5 percent to 7 percent would have no impact on the companies’ activity.

“They’re not leaving the state of Arkansas,” he said.

Other items in the report:

- From 2004 to 2011, 4,878 drilling permits were issued in Fayetteville Shale counties, generating fees to the state of almost \$1.5 million. The state received more than \$90.8 million in severance tax revenues from activity in the region during that time.
- Exploration and production expenditures are projected to be lower in 2012 than 2011 by 23.8 percent because of sustained low prices, but they are still projected to be 5.8 percent above the level of 2012 expenditures that companies estimated in 2008.
- From 2000 to 2010, employment in mining, quarrying and oil and gas extraction increased in Arkansas from 3,855 to 8,358, or 117 percent, while overall employment in the state increased by 0.6 percent.
- Average annual pay in the oil and gas extraction industry was \$74,555 in 2010, twice the average pay of all industries in the state.
- From 2008 to 2011, Arkansas residents across the state received \$1.2 billion in mineral leases and royalty payments.

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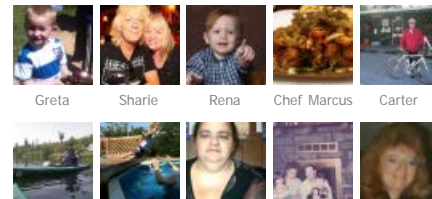
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