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Director's Cut

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Nov Oil 22,051,858 barrels = 735,062 barrels/day
Dec Oil 23,834,431 barrels = 768,853 barrels/day (preliminary)(NEW all-time high)

Nov Gas 23,519,924 MCF = 783,997 MCF/day
Dec Gas 24,976,855 MCF = 805,705 MCF/day (preliminary)(NEW all-time high)

Nov Producing Wells = 8,101
Dec Producing Wells = 8,224 (preliminary)(NEW all-time high)

Nov Permitting: 211 drilling and 0 seismic
Dec Permitting: 154 drilling and 1 seismic
Jan Permitting: 218 drilling and 0 seismic (all time high was 370 in Oct 2012)

Nov Sweet Crude Price = $80.86/barrel
Dec Sweet Crude Price = $77.09/barrel
Jan Sweet Crude Price = $87.89/barrel
Today Sweet Crude Price = $88.75/barrel (all-time high was $136.29 July 3, 2008)

Nov rig count 186
Dec rig count 184
Jan rig count 185
Today's rig count is 182 (all-time high was 218 on May 29, 2012)

Comments:
December drilling continued to decline slightly and well completions were slightly lower than the previous 12 month average, but better weather and completion of 123 new wells brought production back on track. Oil production rate surged to a new record up 4.6% from November. Operators were continuing to transition to higher efficiency rigs and implementing cost cutting measures at the end of their 2012 capital budgets. They are still cautious about the uncertainty surrounding future federal policies on taxation and hydraulic fracturing. Over 95% of drilling still targets the Bakken and Three Forks formations.

We estimate that at year end there were about 413 wells waiting on completion services. We can now estimate from well completion rates and production responses in November and December that it takes about 90 new wells per month to maintain production.

Crude oil take away capacity continues to be adequate to keep up with projected production. A majority of North Dakota's oil is now shipped by rail to east coast, gulf coast, and west coast destinations.

Rig count in the Williston basin is stable. Utilization rate for rigs capable of +20,000 feet is steady at about 80-85% and for shallow well rigs (drill to 7,000 feet or less) utilization remains about 60%.

Drilling permit activity was up significantly in January. We continue to have a sufficient permit inventory to accommodate more multi-well pads, the desire to use already built locations during winter, and the time required to publish hydraulic fracturing rules if required.

The number of rigs actively drilling on federal surface in the Dakota Prairie Grasslands is up to 1.

The number of rigs drilling on the Fort Berthold Reservation is unchanged at 28 with 5 on fee lands and 23 on trust lands.
There are now 805 active wells (96 on trust lands & 709 on fee lands)
Producing 140,869 barrels of oil per day (6,652 from trust lands & 134,217 from fee lands)
121 wells are waiting on completion
294 approved drilling permits (242 on trust lands & 52 on fee lands)
1,467 additional potential future wells (1,426 on trust lands & 41 on fee lands)

Seismic activity is steady with 3 surveys active/recording, 1 remediating, 1 suspended, and 7 permitted. There are now 3 buried arrays in North Dakota used to monitor and optimize hydraulic fracturing.

North Dakota leasing activity is very slow, mostly renewals and top leases in the Bakken - Three Forks area.

Construction of processing plants and gathering systems will be severely affected by weather until after spring thaw. US natural gas storage is up to 16% above the five-year average. This indicates continuing low prices for the foreseeable future. North Dakota shallow gas exploration is not economic at near term gas prices.

Natural gas delivered to Northern Border at Watford City is down to $2.83/MCF. This results in a current oil to gas price ratio of 31 to 1, but the high liquids content makes gathering and processing of Bakken gas economic. Additions to gathering and processing capacity are helping with the percentage of gas flared holding at 29%. The historical high was 36% in September 2011.

Draft BLM regulations for hydraulic fracturing on federal lands were published in the Federal Register. The comment period closed at 5pm EDT on September 10, 2012.

BLM received over 170,000 comments and has withdrawn the rule. A new proposed rule is expected second quarter 2013.

Draft EPA Guidance for permitting hydraulic fracturing using diesel fuel has been published. The comment period closed at 5pm EDT on August 23, 2012. EPA received over 97,000 comments and has set a target of spring 2013 for final guidance document publication.

Pressure on the federal budget has led to a significant amount of rhetoric from the administration regarding tax treatment of intangible drilling costs and the depletion allowance.