6/17/2013

Director's Cut

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Mar Oil 24,272,969 barrels = 782,999 barrels/day
Apr Oil 23,797,461 barrels = 793,249 barrels/day (preliminary)(NEW all-time high)

Mar Gas 26,236,344 MCF = 834,637 MCF/day
Apr Gas 25,811,939 MCF = 860,398 MCF/day (preliminary)(NEW all-time high)

Mar Producing Wells = 8,639
Apr Producing Wells = 8,758 (preliminary)(NEW all-time high)

Mar Permitting: 218 drilling and 1 seismic
Apr Permitting: 202 drilling and 0 seismic
May Permitting: 211 drilling and 0 seismic (all time high was 370 in Oct 2012)

Mar Sweet Crude Price = $87.25/barrel
Apr Sweet Crude Price = $87.85/barrel
May Sweet Crude Price = $87.94/barrel
Today Sweet Crude Price = $86.75/barrel (all-time high was $136.29 July 3, 2008)

Mar rig count 186
Apr rig count 186
May rig count 187
Today's rig count is 184 (all-time high was 218 on May 29, 2012)

Comments:
The drilling rig count did not change from March to April, but the number of well completions dropped by 28 to 119. That number of completions is above the threshold needed to maintain production so oil production rate rose, up 1.3% from March. Operators have not been able to catch a break. April 2013 was the coldest on record, on April 15th over 80% of state highways were 'no travel advised' due to the heavy snow fall, and more recently May 2013 is the wettest on record. Uncertainty surrounding federal policies on taxation and hydraulic fracturing regulation continue to make investors nervous. Pressure on the federal budget has led to a budget proposal that eliminates deductions for intangible drilling costs and the depletion allowance.

Over 95% of drilling still targets the Bakken and Three Forks formations.

We estimate that at the end of April there were about 490 wells waiting on completion services, an increase of 50.

Crude oil take away capacity continues to be adequate as long as rail deliveries to the coasts keep growing.

Rig count in the Williston basin is stable. Utilization rate for rigs capable of +20,000 feet is around 90%, and for shallow well rigs (drill to 7,000 feet or less) utilization remains about 60%.

Drilling permit activity was down slightly in April. There is a sufficient permit inventory to accommodate multi-well pads, the inability to construct locations during load restrictions, and the time required to deal with federal hydraulic fracturing rules if required.

The number of rigs actively drilling on federal surface in the Dakota Prairie Grasslands is down one to 3.

The number of rigs drilling on the Fort Berthold Reservation is down 1 to 25 with 7 on fee lands and 18 on trust lands.
There are now 916 active wells (96 on trust lands & 820 on fee lands)
Producing 148,259 barrels of oil per day (5,240 from trust lands & 141,609 from fee lands)
172 wells are waiting on completion
277 approved drilling permits (249 on trust lands & 28 on fee lands)
2,450 additional potential future wells (2,182 on trust lands & 268 on fee lands)

Seismic activity is steady with 4 surveys active/recording, 1 remediating, 1 suspended, and 5 permitted. There are now 4 buried arrays in North Dakota for monitoring and optimizing 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 picked up with more wells getting connected. US natural gas storage is now 2.4% below the five-year average indicating the price has bottomed, but low prices are still expected for the foreseeable future. Natural gas production increased 1.7% versus the 1.3% increase in oil production. This is consistent with the Bentek study that shows gas oil ratios increasing as wells age. North Dakota shallow gas exploration is not economic at near term gas prices.

Natural gas delivered to Northern Border at Watford City is up $0.04 to $3.51/MCF. This results in a current oil to gas price ratio of 24 to 1, but the high liquids content makes gathering and processing of Bakken gas economic. Additions to gathering and processing capacity are catching up, but the percentage of gas flared remained unchanged at 29%. The historical high was 36% in September 2011.

Draft BLM regulations for hydraulic fracturing on federal lands were published last year. BLM received over 170,000 comments and withdrew the rule. A new proposed rule was published May 24, 2013 with the comment deadline now extended to August 23rd, 2013. All of our readers are urged to submit comments to the BLM as follows:

http://www.gpo.gov/fdsys/pkg/FR-2013-05-24/pdf/2013-12154.pdf

ADDRESSES: Mail: U.S. Department of the Interior, Director (630), Bureau of Land Management, Mail Stop 2134 LM,1849 C St. NW., Washington, DC 20240,Attention: 1004–AE26.

Personal or messenger delivery: Bureau of Land Management, 20 M Street SE., Room 2134 LM, Attention: Regulatory Affairs,Washington, DC 20003.

Federal eRulemaking Portal: http://www.regulations.gov
Follow the instructions at this Web site.

There are a significant number of concerns with the rule as proposed, but the major points that should be commented on are as follows:
1) This is a state's rights issue. The revised rule provides for an operator to get a statewide exemption is the state has adopted hydraulic fracturing rules that include chemical disclosure, well construction, and well bore pressure testing. The proposal should be expanded to allow the state to apply for an exemption from the rule.
2) The revised rule provides for a type well to be used for an entire field to satisfy the pre-fracturing approval requirements. The proposal should be expanded to allow a type well to cover an entire county or basin if the geology is substantially similar.
3) The requirement to submit water source and recovered fluid disposal method encroach upon state jurisdiction over waters of the state and over underground injection control under the primacy agreement between North Dakota and the EPA.

Draft EPA Guidance for permitting hydraulic fracturing using diesel fuel was also published last year. EPA received over 97,000 comments and has set a target around mid-year for final guidance document publication.