

# Director's Cut

Lynn Helms  
NDIC Department of Mineral Resources

## Oil Production

January 34,796,333 barrels = 1,122,462 barrels/day  
February 32,431,669 barrels = 1,118,333 barrels/day (preliminary)(all-time high was Dec 2014 at 1,227,483 barrels/day)  
1,064,108 barrels per day or 95% from Bakken and Three Forks  
54,225 barrels per day or 5% from legacy conventional pools

## Gas Production

January 50,870,396 MCF = 1,640,981 MCF/day  
February 49,028,332 MCF = 1,690,632 MCF/day (preliminary)(NEW all-time high)

## Producing Wells

January 13,141  
February 13,012 (preliminary)(all-time high was Oct 2015 13,190)  
10,898 wells or 84% are now unconventional Bakken – Three forks wells  
2,114 wells or 16% produce from legacy conventional pools

## Permitting

January 78 drilling and 0 seismic  
February 70 drilling and 1 seismic  
March 56 drilling and 4 seismic (all time high was 370 in 10/2012)

## ND Sweet Crude Price<sup>1</sup>

January \$21.13/barrel  
February \$18.07/barrel  
March \$26.62/barrel  
Today \$31.25/barrel (all-time high was \$136.29 7/3/2008)

## Rig Count

January 52  
February 40  
March 32  
Today's rig count is 29 (lowest since October 2005 when it was 29)(all-time high was 218 on 5/29/2012)

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<sup>1</sup> Pricing Source: [Flint Hills Resources](#)

The statewide rig count is down 87% from the high and in the five most active counties rig count is down as follows:

Divide -92% (high was 3/2013)  
 Dunn -87% (high was 6/2012)  
 McKenzie -79% (high was 1/2014)  
 Mountrail -93% (high was 6/2011)  
 Williams -94% (high was 10/2014)

### **Comments:**

The drilling rig count fell 12 from January to February, 8 from February to March, and 3 more from March to today. Operators are committed to running the minimum number of rigs while oil prices remain at current low levels. The number of well completions fell from 71(final) in January to 63(preliminary) in February. Oil price weakness is the primary reason for the slow-down and is now anticipated to last into at least the third quarter of this year and perhaps into the second quarter of 2017. There was 1 significant precipitation event, 6 days with wind speeds in excess of 35 mph (too high for completion work), and 0 days with temperatures below -10F.

Over 98% of drilling now targets the Bakken and Three Forks formations.

The estimated number of wells waiting on completion services is 907<sup>2</sup>, down 38 from the end of January.

The estimated inactive well count is 1,439<sup>3</sup>.

Crude oil take away capacity remains dependent on rail deliveries to coastal refineries to remain adequate.

Low oil price associated with lifting of sanctions on Iran and a weaker economy in China are expected to lead to continued low drilling rig count. Utilization rate for rigs capable of 20,000+ feet is about 30% and for shallow well rigs (7,000 feet or less) about 20%.

Drilling permit activity declined January to February then fell further in February as operators continue to position themselves for low 2016 price scenarios. Operators have a significant permit inventory should a return to the drilling price point occur in the next 12 months.

Rigs actively drilling on federal surface in the Dakota Prairie Grasslands remains at 0.

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<sup>2</sup> The number of wells waiting on completions is an estimate on the part of the director based on idle well count and a typical five year average. Neither the State of North Dakota, nor any agency officer, or employee of the State of North Dakota warrants the accuracy or reliability of this product and shall not be held responsible for any losses caused by this product. Portions of the information may be incorrect or out of date. Any person or entity that relies on any information obtained from this product does so at his or her own risk.

<sup>3</sup> Includes all well types on IA and AB statuses.  
 IA= Inactive shut in >3 months and <12 months  
 AB= Abandoned (Shut in >12 months)

Activity on the Fort Berthold Reservation is as follows:

- 4 drilling rigs (0 on fee lands and 4 on trust lands)
- 168,074 barrels of oil per day (113,826 from trust lands & 54,248 from fee lands)
- 1,435 active wells (980 on trust lands & 455 on fee lands)
- 173 wells waiting on completion
- 548 approved drilling permits (342 on trust lands & 206 on fee lands)
- 1,805 additional potential future wells (1,288 on trust lands & 517 on fee lands)

Seismic activity is up significantly. There are 4 surveys active, 0 recording and 0 NDIC reclamation projects, 0 remediating, 3 suspended, and 1 permitted.

North Dakota leasing activity is limited to renewals and top leases in the Bakken - Three Forks area.

US natural gas storage is now 54.4% above the five-year average indicating low prices in the future. North Dakota shallow gas exploration could be economic at future gas prices, but is not at the current price. The operator of the exploration well (file 27235) in Emmons County has received Temporary Abandoned status on 8/31/15 and cancelled all other permits in the area. The well appears to contain 2 pay sections totaling about 80 feet thick with very good gas shows.

The price of natural gas delivered to Northern Border at Watford City is up \$0.34 to \$1.46/MCF. This results in a current oil to gas price ratio of 21.4 to 1. The percentage of gas flared was down to 11%. The Tioga gas plant operated at 84% of capacity. Even though the expansion of gas gathering from south of Lake Sakakawea was approved, the approval came too late for the 2015 construction season, resulting in a 1 year delay. The February Bakken capture percentage was 89% with the daily volume of gas flared from January to February down 21.9 MMCFD. The historical high flared percent was 36% in 09/2011.

Gas capture statistics are as follows:

Statewide 89%

Statewide Bakken 89%

Non-FBIR Bakken 90%

FBIR Bakken 87%

Trust FBIR Bakken 87%

Fee FBIR 89%

77% January 1, 2015 through March 31, 2016

80% April 1, 2016 through October 31, 2016

85% November 1, 2016 through October 31, 2018

88% November 1, 2018 through October 31, 2020

91% beginning November 1, 2020

The North Dakota Legislature passed HB1432 which sets up a council to address Clean Water Act, Safe Drinking Water Act, Clean Air Act, and Endangered Species Act issues: **Prime Minister Justin Trudeau and President Barack Obama announced Thursday 3/10/16 their two countries will work together to reduce methane emissions from the oil and gas sector by 40 to 45 per cent below 2012 levels by 2025. March 10, 2016 EPA announced its next step in reducing emissions of methane from the oil and natural gas industry: moving to regulate emissions from existing sources. The agency will begin with a formal process to require companies operating existing oil and gas sources to provide information to assist in the development of comprehensive regulations to reduce methane emissions. An Information Collection Request (ICR) will enable EPA to gather important information on existing sources of methane emissions, technologies to reduce those emissions and the costs of those technologies in the production, gathering, processing, and transmission and storage segments of the oil and gas sector. EPA will also be seeking information that will help the agency identify sources with high emissions and the factors that contribute to those emissions. The ICR will likely apply to the same types of sources covered by the current and proposed New Source Performance Standards for the oil and gas sector, as well as additional sources. Current EPA plans can be found at <https://www3.epa.gov/airquality/oilandgas/pdfs/20160310fs.pdf>**

**BIA** has published a new final rule to update the process for obtaining rights of way on Indian land. The rule was published 11/19/15 and became effective 12/21/15. The final rule can be found at <https://www.federalregister.gov/articles/2015/11/19/2015-28548/rights-of-way-on-indian-land>. **ND is reviewing the rule to determine if it will adversely impact state jurisdiction and may need to file for an injunction or stay.**

**BLM** has published a new final rule to revise Onshore Order 4. The proposed rule would replace Onshore Oil and Gas Order Number 4 (Order 4), which sets minimum standards for the measurement of oil. Order 4 has not been updated since 1989, and does not reflect modern industry practices or standards. The proposed rule may be viewed online at [www.regulations.gov](http://www.regulations.gov). Comments on the proposed rule were due February 14, 2015. NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/BLM-Comments-OnshoreOrder4.pdf>

**BLM** released a proposed rule on 10/2/15 to update and replace its regulations (Onshore order 5) governing the measurement of natural gas produced from onshore Federal and Indian leases. The requirements contained in the proposed rule reflect advances in measurement technology and critical updates in industry standards and practices. It also responds directly to concerns from the Government Accountability Office (GAO), the Department of the Interior's Office of Inspector General, and Secretary's Subcommittee on Royalty Management, that the BLM's existing rules do not provide adequate assurance that gas production on public and Indian lands is being accounted for in a way that ensures that all royalties are accurately tracked and paid. The proposed rule that would replace Onshore Order 5 may be viewed online at [www.blm.gov](http://www.blm.gov). Comments on the proposed rule were due February 14, 2015. NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/BLM-Comments-1004-AE17.pdf>

**BLM** released a proposed rule on 1/22/16 to update and replace its regulations on venting and flaring of natural gas. The information from public and tribal sessions in Denver, Albuquerque, Dickinson, and Washington, DC can be viewed at

[http://www.blm.gov/wo/st/en/prog/energy/oil\\_and\\_gas/public\\_events\\_on\\_oil.html](http://www.blm.gov/wo/st/en/prog/energy/oil_and_gas/public_events_on_oil.html).

Previous NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/BLM-comments-140509.pdf>. Comments on the proposed rule are due **April 22, 2016** as follows:

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-AE14; Personal or messenger delivery: 20 M Street SE., Room 2134LM, Washington, DC 20003; Electronic: Federal eRulemaking Portal:

<http://www.regulations.gov> Follow the instructions at this Web site. BLM held tribal/public outreach sessions as follows:

- Farmington, NM on February 16
- Oklahoma City, OK on February 18
- Denver, CO on March 1
- Dickinson, ND on March 3, NDIC is preparing additional comments.

**BLM** revised final regulations for hydraulic fracturing on federal and Indian lands were published in the CFR on 3/26/15 and they were scheduled to go into effect 6/24/15.

North Dakota, Colorado, Utah, Wyoming, Western Energy Alliance, and IPAA filed for a preliminary injunction to prevent the rules going into effect until the case is settled.

Following a lengthy hearing in Casper, Wyoming on Aug 23, the court issued a stay on the rules. On 9/30/15 the court granted the preliminary injunction, preventing the rules from being enforced until litigation on the rule is final. The 10<sup>th</sup> Circuit Court of Appeals issued an order 3/10/16 denying the industry alternative motion for a stay and requiring

appelants to file opening briefs on or before 3/21/16. **The 10<sup>th</sup> Circuit Court granted a 30 day extension of the Response Brief and Reply Brief deadlines requested by State and Citizen Group Appellants.** NDIC comments can be found at

<http://www.nd.gov/ndic/ic-press/BLM-comments-120625.pdf>

**BLM** has published a new final rule to revise Onshore Order 3. The proposed rule would change the way federal production is measured and allocated for calculation of royalties, require a federal Application for Permit to Drill (APD) even for state and private wells in a federal unit or communitized area (CA), and revise the situations in which downhole commingling of production from different leaseholds would be allowed. Comments on the proposed rule were due February 14, 2015. NDIC comments can be found

at <http://www.nd.gov/ndic/ic-press/BLM-Comments-OnshoreOrder3.pdf>

**BLM** has published the North Dakota Greater Sage-Grouse Proposed Resource Management Plan Amendment and Final EIS. Information on the plan and EIS can be found at the following web addresses: <https://www.blm.gov/epl-front-office/eplanning/planAndProjectSite.do?methodName=dispatchToPatternPage&currentPageId=48797>

**EPA** On January 26, 2015 a coalition of environmental organizations filed a 60 day legal notice with the U.S. Environmental Protection Agency demanding more regulation of drilling and fracking waste. The groups are the Environmental Integrity Project, Natural Resources Defense Council, Earthworks, Responsible Drilling Alliance, San Juan Citizens Alliance, West Virginia Surface Owners Rights Organization, and the Center for Health, Environment and Justice. The groups are calling on EPA to comply with its long-overdue obligations to update waste disposal rules such as instituting stricter controls for underground injection wells, banning the practice of spreading fracking wastewater onto roads or fields, and requiring landfills and ponds that receive drilling and fracking waste to be built with adequate liners and structural integrity to prevent spills and leaks into groundwater and streams. **ND is monitoring federal court docket activity and intends to intervene to prevent a sue and settle situation that would adversely impact state regulatory jurisdiction.**

**EPA** On January 18, 2015, EPA proposed a suite of requirements to help combat climate change, reduce air pollution that harms public health, and provide greater certainty about Clean Air Act permitting requirements for the oil and natural gas industry.

The proposed actions are:

- o Proposed New Source Performance Standards – Docket ID number EPA-HQ-OAR-2010-0505. NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/EPA-HQ-OAR-2010-0505.pdf>

- o Draft Control Techniques Guidelines – Docket ID number: EPA-HQ-OAR-2015-0216. NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/EPA-HQ-OAR-2015-0216.pdf>

- o Proposed Source Determination Rule – Docket ID number: EPA-HQ-OAR-2013-0685. NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/EPA-HQ-OAR-2013-0685.pdf>

- o Proposed Federal Implementation Plan for Implementing Minor New Source Review Permitting in Indian Country – Docket ID number: EPA-HQ-OAR-2014-0606. NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/EPA-HQ-OAR-2014-0606.pdf>

**EPA** published an advanced notice of proposed rule-making to seek comments on the information that should be reported or disclosed for hydraulic fracturing chemical substances and mixtures and the mechanism for obtaining this information. The proposed rule-making is in response to a petition from Earthjustice and 114 other groups who are opposed to the use of the GWPC-IOGCC FracFocus website process of chemical disclosure and any type of trade secret protection for hydraulic fracturing fluid mixtures. These groups are requesting EPA regulation of chemical disclosure under the federal Toxic Substances Control Act. Thanks to all who provided comments in support of a “states first” policy. NDIC comments can be viewed at <http://www.nd.gov/ndic/ic-press/DMR-frac714.pdf>

**EPA** Administrator, Gina McCarthy, and the Assistant Secretary of the Army (Civil Works), Jo Ellen Darcy, signed the “Waters of the United States” final rule on 05/27/2015. The final rule was published in the Federal Register Aug 29, 2015 and

became effective in 37 states on January 28, 2015. North Dakota, Alaska, Arizona, Arkansas, Colorado, Idaho, Missouri, Montana, Nebraska, New Mexico, Nevada, South Dakota, and Wyoming filed a lawsuit in U.S. District Court, claiming the final rule would harm states as regulators of the waters and lands. On January 27th Federal District Judge Erickson granted a preliminary injunction preventing enforcement of the rule in the 13 states. The North Dakota case will now be subject to appeal, but no schedule has been set at this time. NDIC comments can be viewed at <http://www.nd.gov/ndic/ic-press/WOTUS-comments.pdf>

Texas, Mississippi and Louisiana filed a joint complaint in the U.S. District Court for the Southern District of Texas, charging that the rule is unconstitutional. Ohio and Michigan filed a complaint in the U.S. District Court for the Southern District of Ohio, alleging that the expansion of jurisdiction includes dry land. Georgia and eight other states (Alabama, Florida, Kansas, Kentucky, South Carolina, Utah, West Virginia and Wisconsin) filed suit in the U.S. District Court for the Southern District of Georgia, asking the court to vacate the rule and block its enforcement by injunction. On 10/9/15 the United States Court Of Appeals for the Sixth Circuit granted a nationwide stay of the WOTUS rule pending jurisdiction determinations.

**USFWS** has made a decision to list the Dakota Skipper and Powershiek Skipperling to receive protection under the Endangered Species Act. Additional potential listing of concern are the Rufa Red Knot, Sprague's Pipit, Greater Sage Grouse, Monarch Butterfly, Sturgeon Chub, and Sicklefing Chub.

**USFWS** has published a new final rule to revise Management of Non-Federal Oil and Gas Rights. Key components of the proposed rule include: A permitting process for new operations; A permitting process for well plugging and reclamation for all operations; Information requirements for particular types of operations; Operating standards so that both the Service and the operator can readily identify what standards apply to particular operations; Fees for new access beyond that held as part of the operator's oil and gas right; Financial assurance (bonding); Penalty provisions; Clarification that the process for authorizing access to non-Federal oil and gas properties in Alaska will continue to be controlled by 43 CFR part 36, which implements provisions of the Alaska National Interest Lands Conservation Act; and Codification of some existing agency policies and practices. The proposed rule may be viewed online at <http://www.fws.gov/policy/library/2015/2015-30977.html> comments on the proposed rule were due February 9, 2016. NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/DMR-FWS-0086.pdf>