

Director's Cut

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Jul Oil 13,174,225 barrels = 424,975 barrels/day
Aug Oil 13,768,394 barrels = 444,142 barrels/day (preliminary) (all time high)

Jul Gas 13,418,556 MCF = 432,857 MCF/day
Aug Gas 14,309,307 MCF = 461,591 MCF/day (preliminary) (all time high)

Jul Producing Wells = 5,756
Aug Producing Wells = 5,951 (all time high)

Jul Permitting: 136 drilling and 2 seismic
Aug Permitting: 207 drilling and 1 seismic (all time high 245 Nov 2010)

Jul Sweet Crude Price = \$90.60/barrel
Aug Sweet Crude Price = \$81.43/barrel
Today Sweet Crude Price = \$79.00/barrel ND (all time record high \$136.29 July 3, 2008)

Jul rig count 177
Aug rig count 192
Sep rig count 197
Today's rig count is 196 (all time record high 201 Aug 29-31, 2011)

Comments:

The summer surge is continuing to push hydraulic fracturing activity and production upward. August brought the second month of warm and dry weather and even though rig count was flat, daily production increased almost 5% due to high levels of hydraulic fracturing activity. Bakken and Three Forks formations continue to be the target of over 95% of drilling activity. Bowman County Red River production was stable at about 27,000 barrels per day with one well drilling. The idle well count dropped significantly again to 733 wells, but normal is 450, indicating a continuing backlog of almost 300 wells waiting on fracturing services.

Crude take away capacity with pipeline, rail, and truck transportation is more than adequate for the near term production projections. North Dakota Sweet posted price versus NYMEX-WTI is down to -7.5%.

Rig counts in the Williston basin are holding at recent record levels with more rigs scheduled to be built and transported here by year end. Utilization of rigs capable of

+20,000 feet is more than 95%, but for shallow well rigs that can drill to 7,000 feet or less utilization remains approximately 50%.

The efforts to regulate hydraulic fracturing under the safe drinking water act remain high with EPA now looking at using the diesel fuel provision in the 2005 energy policy act.

Drilling permit activity is high, but still below record levels. As fall approaches and the rig count rises permit activity is expected to increase so locations can be built prior to winter weather.

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

Seismic is very busy with 5 surveys active and 5 pending.

North Dakota leasing activity is focused on renewals and top leases in the Bakken - Three Forks thermal maturity area with significant activity south of Dickinson and west of Belfield. Much of the leasing activity has shifted to Northeast Montana.

Daily natural gas production is up. Processing plant and gathering system construction activity is very high due to warmer weather. US natural gas storage is 1% above the five-year average. North Dakota shallow gas exploration is not economic at the current price.

Natural gas delivery to Northern Border at Watford City price is down again to \$3.04/MCF. This results in the oil to gas price ratio of 26 to 1 even though the BTU ratio is 6 to 1. The low value of processed natural gas does not justify investment in infrastructure, but the natural gas liquids make gathering and processing of Bakken gas economic. The policy set forth in statute for the North Dakota Industrial Commission is to promote production and to prevent waste in order that the greatest possible economic recovery of oil and gas is obtained. The Industrial Commission has encouraged and supported various projects that utilize the resource, ultimately reducing the amount of flared gas in oil country. Up to this point in the Bakken play gas has been flared at record levels in order to promote the resource to the natural gas gathering and processing industry and demonstrate the size and potential of the resource. The result is a plan presented by industry to invest over \$3 billion in natural gas gathering and processing infrastructure in 2011, 2012, and 2013. As this investment is made and gas gathering infrastructure is built, Commission policy can be expected to focus even more toward preventing waste in the natural gas arena.