Director's Cut

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Mar Oil 17,901,807 barrels = 577,478 barrels/day
Apr Oil 18,281,116 barrels = 609,371 barrels/day (preliminary) (NEW all-time high)

Mar Gas 19,302,603 MCF = 622,665 MCF/day
Apr Gas 19,521,986 MCF = 650,733 MCF/day (preliminary) (NEW all-time high)

Mar Producing Wells = 6,932
Apr Producing Wells = 7,025 (NEW all-time high)

Mar Permitting: 181 drilling and 1 seismic
Apr Permitting: 167 drilling and 2 seismic (all time high was 245 in Nov 2010)

Mar Sweet Crude Price = $76.29/barrel
Apr Sweet Crude Price = $78.17/barrel
Today Sweet Crude Price = $73.25/barrel ND (all-time high was $136.29 July 3, 2008)

Mar rig count 205
Apr rig count 209
May rig count 211
Today's rig count is 212 (All-time high was 218 on May 29, 2012)

Comments:
Draft BLM regulations for hydraulic fracturing on federal lands were published in the Federal Register. There is a 60 day comment period with comments due by 5pm EDT on July 10, 2012. All of our readers are urged to submit comments to the BLM as follows:
http://www.regulations.gov/#!submitComment;D=BLM-2012-0001-0001

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.

Fax: Office of Management and Budget (OMB), Office of Information and Regulatory Affairs, Desk Officer for the Department of the Interior, fax 202-395- 5806.

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. States that have adopted hydraulic fracturing rules that include chemical disclosure, well construction, and well bore pressure testing should be exempted from the rule.

2) The EPA study of potential hydraulic fracturing effects on ground water is not finished and there are currently no known environmental contamination incidents.
3) As Chairman Hall has testified, the required consultation with the Three Affiliated Tribes has not occurred.

Draft EPA Guidance for permitting hydraulic fracturing using diesel fuel has been published. There is a 60 day comment period with comments due by 5pm EDT on July 9, 2012. I urge all of our readers to submit comments to the EPA as follows:
Submit your comments, identified by Docket ID No. EPA-HQ-OW-2011-1013 by one of the following methods:
www.regulations.gov: Follow the on-line instructions for submitting comments.
Email:OWDocket@epa.gov@epa.gov
Mail: Permitting Guidance for Oil and Gas Hydraulic Fracturing Activities Using Diesel Fuels—Draft, Environmental Protection Agency, Mailcode: 4606M, 1200 Pennsylvania Ave. NW., Washington, DC 20460.

There are a significant number of concerns with the guidance as proposed, but the major points that should be commented on are as follows:

1) This is a state's rights issue. States that have adopted hydraulic fracturing rules that include chemical disclosure, well construction, and well bore pressure testing should be explicitly exempted from the guidance.
2) The definition of diesel fuel is too broad because it includes six CASRNs as well as any materials referred to by one of these primary names or any associated common synonyms.
3) EPA made no attempt to identify dangerous concentrations of these materials. Hydraulic fracturing treatments that utilize concentrations of less than 10% of any material defined as diesel fuel should be exempt from permitting requirements.
4) The guidance is written for Enhanced Oil Recovery wells or disposal wells completed with tubing and packer. It shows a serious lack of understanding of the horizontal drilling-hydraulic fracturing process. Most of the requirements will not work mechanically on wells completed with swell packers and fractured down the production casing.

Mild weather continued into April resulting in increased hydraulic fracturing activity and increased production. Rig count continues a slow rise and daily production increased 5.5% from March to April. This trend may not continue into May as spring weather brings load restrictions and slows well site construction. Over 95% of drilling still targets the Bakken and Three Forks formations. The idle well count reversed the normal trend and increased by 76 leaving an estimated 339 wells now waiting on fracturing services. This is expected to lead to significant production increases in June and July as additional fracturing crews begin work.

Crude oil take away via pipeline is almost 30% below production, but rail and truck transportation are adequate to keep up with near term production projections. The North Dakota Sweet posted price to NYMEX-WTI discount has dropped to -12% but NYMEX-WTI to Brent discount remains at -15%. This is forcing an increasing amount of North

Dakota crude oil onto rail transportation so it can reach destinations that pay Brent price. Gasoline prices responded to crude oil price changes with a $0.20 per gallon drop, but when the Mandan refinery expansion got underway the price went back up $0.10. The large number of area specific summer blends required by EPA reduces the ability to move gasoline between markets.

Rig counts in the Williston basin continue to increase slowly. Utilization of rigs capable of +20,000 feet remains over 95%. Many of the new rigs being built are scheduled to replace older less efficient ones. For shallow well rigs that drill to 7,000 feet or less utilization remains about 50%.

Drilling permit activity is high, but well below record levels.

The number of wells drilling on federal surface in the Dakota Prairie Grasslands fell to 0 this week.

The number of wells drilling on the Fort Berthold Reservation rose to 32 with 6 on fee lands and 26 on trust lands.

Seismic is very busy with 4 surveys active/recording, 2 remediating, 1 suspended, and 8 permitted.

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

Daily natural gas production is up while construction of processing plants and gathering systems accelerates with warmer weather. US natural gas storage has dropped to 29% above the five-year average but still means continued low prices for the foreseeable future. North Dakota shallow gas exploration is not economic at the current price.

Natural gas delivered to Northern Border at Watford City is down to $2.03/MCF. This results in a current oil to gas price ratio of 36 to 1. The high liquids content makes gathering and processing of Bakken gas economic. Additions to the processing capacity are starting to show results as the percentage of gas being flared was up slightly to 34%. The historical high was 36% in September 2011. The trend should turn downward in the coming months as new processing plants and gathering systems come on line.