Director's Cut

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Apr Oil 18,285,087 barrels = 609,503 barrels/day
May Oil 19,817,591 barrels = 639,277 barrels/day (preliminary) (NEW all-time high)

Apr Gas 19,525,128 MCF = 650,838 MCF/day
May Gas 21,321,038 MCF = 687,775 MCF/day (preliminary) (NEW all-time high)

Apr Producing Wells = 7,036
May Producing Wells = 7,188 (NEW all-time high)

Apr Permitting: 167 drilling and 2 seismic
May Permitting: 180 drilling and 1 seismic (all time high was 245 in Nov 2010)

Apr Sweet Crude Price = $78.17/barrel
May Sweet Crude Price = $79.44/barrel
Today Sweet Crude Price = $72.25/barrel ND (all-time high was $136.29 July 3, 2008)

Apr rig count 209
May rig count 211
Jun rig count 213
Today's rig count is 208 (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. The comment period has been extended to 5pm EDT on September 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. The comment period has been extended to 5pm EDT on August 23, 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 in May resulting in increased hydraulic fracturing activity and increased production. Rig count is now steady at around 210-215 rigs and daily production increased 4.9% from April to May. Over 95% of drilling still targets the Bakken and Three Forks formations. The idle well count stayed almost the same leaving an estimated 336 wells waiting on fracturing services. This is expected to lead to significant production increases through the summer as additional fracturing crews are added.

Crude oil take away via pipeline is almost 35% 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 increased again to -16% and NYMEX-WTI to Brent discount is also at -16%. This is forcing an increasing amount of

North Dakota crude oil onto rail transportation so it can reach destinations that pay Brent price.

Rig count in the Williston basin are steady. 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 has increased, but remains well below record levels. As winter approaches more permits will be needed to ensure locations can be built before the weather window closes.

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

The number of wells drilling on the Fort Berthold Reservation remains at 32 with 4 on fee lands and 28 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 increasing slightly faster than oil production. This indicates that gas oil ratios may be increasing and more gathering and processing capacity will be needed. Construction of processing plants and gathering systems is accelerating with warmer weather. US natural gas storage has dropped to 20% above the five-year average but still indicates 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 $2.05/MCF. This results in a current oil to gas price ratio of 35 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 flared was down significantly to 31.5%. The historical high was 36% in September 2011.