

# Director's Cut

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Sep Oil 21,877,429 barrels = 729,248 barrels/day  
Oct Oil 23,164,406 barrels = 747,239 barrels/day (preliminary)(NEW all-time high)

Sep Gas 23,874,169 MCF = 795,806 MCF/day  
Oct Gas 24,677,309 MCF = 796,042 MCF/day (preliminary)(NEW all-time high)

Sep Producing Wells = 7,899  
Oct Producing Wells = 8,025 (preliminary)(NEW all-time high)

Sep Permitting: 273 drilling and 0 seismic  
Oct Permitting: 370 drilling and 0 seismic  
Nov Permitting: 211 drilling and 0 seismic (all time high was 370 in Oct 2012)

Sep Sweet Crude Price = \$84.98/barrel  
Oct Sweet Crude Price = \$87.00/barrel  
Nov Sweet Crude Price = \$80.66/barrel  
Today Sweet Crude Price = \$75.25/barrel (all-time high was \$136.29 July 3, 2008)

Sep rig count 190  
Oct rig count 188  
Nov rig count 186  
Today's rig count is 182 (all-time high was 218 on May 29, 2012)

## Comments:

October saw a decline in drilling and an even greater decline in hydraulic fracturing resulting in a 2.5% oil production rate increase from September. Rig count has declined further to around 180 as more operators transition to higher efficiency rigs and implement cost cutting measures at the end of their 2012 capital budgets. The idle well count rose sharply indicating an estimated 340 wells waiting on fracturing services. Rapidly escalating well costs that consumed capital spending budgets faster than many companies anticipated and uncertainty surrounding future federal policies on taxation and hydraulic fracturing are impacting capital investment decisions. Over 95% of drilling still targets the Bakken and Three Forks formations.

Crude oil take away capacity remains adequate to keep up with near term production projections, but a majority of oil now ships by rail to east coast, gulf coast, and west coast destinations.

Rig count in the Williston basin is down slightly. Utilization rate for rigs capable of +20,000 feet is down to about 85% and for shallow well rigs (drill to 7,000 feet or less) utilization remains about 60%.

Drilling permit activity has returned to normal now that sufficient permit inventory exists to accommodate more multi-well pads, the need to build locations before winter weather, and the time required to publish hydraulic fracturing rules if required.

The number of rigs actively drilling on federal surface in the Dakota Prairie Grasslands is down to 4.

The number of rigs drilling on the Fort Berthold Reservation has dropped to 25 with 4 on fee lands and 21 on trust lands.

There are now 772 wells (96 on trust lands & 676 on fee lands)

Producing 136,096 barrels of oil per day (6,807 from trust lands & 130,096 from fee lands)

103 wells are waiting on completion

311 approved drilling permits (298 on trust lands & 13 on fee lands)

2,150 additional potential future wells (1,512 on trust lands & 638 on fee lands)

Seismic activity is down with 4 surveys active/recording, 1 remediating, 0 suspended, and 6 permitted.

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

Daily natural gas production did not increase from September to October. This is largely due to dry gas wells and high gas oil ratio wells in units being shut in. Construction of processing plants and gathering systems is now affected by weather. US natural gas storage is up to 8% above the five-year average. This 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 \$2.93/MCF. This results in a current oil to gas price ratio of 26 to 1, but the high liquids content makes gathering and processing of Bakken gas economic. Additions to gathering and processing capacity are helping but the percentage of gas flared did not change at 30%. The historical high was 36% in September 2011.

Draft BLM regulations for hydraulic fracturing on federal lands were published in the Federal Register. The comment period closed at 5pm EDT on September 10, 2012. BLM received over 170,000 comments and has indicated a final rule will not be published until early 2013.

Draft EPA Guidance for permitting hydraulic fracturing using diesel fuel has been published. The comment period closed at 5pm EDT on August 23, 2012. EPA received

over 97,000 comments and has set a target of spring 2013 for final guidance document publication.