Director's Cut

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Dec Oil 23,873,431 barrels = 770,111 barrels/day
Jan Oil 22,878,682 barrels = 738,022 barrels/day (preliminary)(all-time high was 770,111 barrels per day in Dec 2012)

Dec Gas 25,362,710 MCF = 818,152 MCF/day
Jan Gas 24,584,184 MCF = 793,038 MCF/day (preliminary)(all-time high was 818,152 MCF/day in Dec 2012)

Dec Producing Wells = 8,237
Jan Producing Wells = 8,322 (preliminary)(NEW all-time high)

Dec Permitting: 154 drilling and 1 seismic
Jan Permitting: 218 drilling and 0 seismic
Feb Permitting: 185 drilling and 2 seismic (all time high was 370 in Oct 2012)

Dec Sweet Crude Price = $77.09/barrel
Jan Sweet Crude Price = $87.89/barrel
Feb Sweet Crude Price = $87.98/barrel
Today Sweet Crude Price = $87.00/barrel (all-time high was $136.29 July 3, 2008)

Dec rig count 184
Jan rig count 185
Feb rig count 183
Today's rig count is 187 (all-time high was 218 on May 29, 2012)

Comments:
January brought us winter storm Gandolph followed by over a week of sub-zero temperatures and wind chills. Even though the drilling rig count held in the middle 180s rig efficiency fell and the number of well completions plummeted 26% to 85. That number of completions is half previous 12 month average and below the threshold needed to maintain production. Oil production rate fell sharply down 4.2% from December. Operators continuing to push for higher efficiency rigs and implement cost cutting measures. The uncertainty surrounding future federal policies on taxation and hydraulic fracturing remain. Over 95% of drilling still targets the Bakken and Three Forks formations.

We estimate that at the end of January there were about 410 wells waiting on completion services.

Crude oil take away capacity continues to be adequate with a majority of North Dakota's oil now shipped by rail to east coast, gulf coast, and west coast destinations.

Rig count in the Williston basin is stable. Utilization rate for rigs capable of +20,000 feet is steady at about 80-85% and for shallow well rigs (drill to 7,000 feet or less) utilization remains about 60%.

Drilling permit activity was up significantly in January, but fell again in February. We have a sufficient permit inventory to accommodate more multi-well pads, the difficulty of constructing locations during winter, 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 remains at 1.

The number of rigs drilling on the Fort Berthold Reservation is unchanged at 28 with 4 on fee lands and 24 on trust lands.
There are now 830 active wells (96 on trust lands & 734 on fee lands)
Producing 129,460 barrels of oil per day (5,889 from trust lands & 123,571 from fee lands)
148 wells are waiting on completion
262 approved drilling permits (247 on trust lands & 15 on fee lands)
1,458 additional potential future wells (1,442 on trust lands & 16 on fee lands)

Seismic activity is up slightly with 4 surveys active/recording, 1 remediating, 1 suspended, and 7 permitted. There are now 4 buried arrays in North Dakota used to monitor and optimize hydraulic fracturing.

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

Construction of processing plants and gathering systems was also severely affected by weather and this will continue until after spring thaw. US natural gas storage is down to 11% above the five-year average indicating continuing low prices for the foreseeable future. Natural gas production decreased 3% versus the 4.2% drop in oil production. This is consistent with the Bentek study that shows gas oil ratios increasing as wells age. North Dakota shallow gas exploration is not economic at near term gas prices.

Natural gas delivered to Northern Border at Watford City is up to $3.19/MCF. This results in a current oil to gas price ratio of 27 to 1, but the high liquids content makes gathering and processing of Bakken gas economic. Additions to gathering and processing capacity are keeping up with the percentage of gas flared holding at 29%. 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 withdrawn the rule. A new proposed rule is expected second quarter 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.

Pressure on the federal budget has led to more discussions in Washington regarding tax treatment of intangible drilling costs and the depletion allowance.