Director's Cut

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Apr Oil 23,815,546 barrels = 793,852 barrels/day
May Oil 25,114,011 barrels = 810,129 barrels/day (preliminary)(NEW all-time high)

Apr Gas 25,835,802 MCF = 861,193 MCF/day
May Gas 27,899,280 MCF = 899,977 MCF/day (preliminary)(NEW all-time high)

Apr Producing Wells = 8,772
May Producing Wells = 8,915 (preliminary)(NEW all-time high)

Apr Permitting: 202 drilling and 0 seismic
May Permitting: 211 drilling and 0 seismic
Jun Permitting: 165 drilling and 0 seismic (all time high was 370 in Oct 2012)

Apr Sweet Crude Price = $87.85/barrel
May Sweet Crude Price = $87.94/barrel
Jun Sweet Crude Price = $85.79/barrel
Today Sweet Crude Price = $97.00/barrel (all-time high was $136.29 July 3, 2008)

Apr rig count 186
May rig count 187
Jun rig count 187
Today's rig count is 186 (all-time high was 218 on May 29, 2012)

Comments:
The drilling rig count rose by only one from April to May, but the number of well completions rose by 10 to 143. That number of completions is above the threshold needed to maintain production so oil production rate rose, up 2.1% from April. However, the drilling rigs continue to outpace completion crews. The average number of days to drill a well from spud to total depth is at just under 22, but the average number of days from total depth to initial production has increased to 92. Load restrictions have remained in place longer than ever before because May 2013 was the wettest on record. Uncertainty surrounding federal policies on taxation and hydraulic fracturing regulation continue to make investors nervous. Pressure on the federal budget has led to a budget proposal that eliminates deductions for intangible drilling costs and the depletion allowance.

More than 95% of drilling still targets the Bakken and Three Forks formations.

We estimate that at the end of May there were about 500 wells waiting on completion services, an increase of 10.

Crude oil take away capacity continues to be adequate as long as rail deliveries to the coasts keep growing.

Rig count in the Williston basin is stable. Utilization rate for rigs capable of +20,000 feet is about 90%, and for shallow well rigs (drill to 7,000 feet or less) utilization remains about 60%.

Drilling permit activity was down sharply in May. There is a sufficient permit inventory to accommodate multi-well pads, the inability to construct locations during load restrictions, and the time required to deal with federal hydraulic fracturing rules if required.

The number of rigs actively drilling on federal surface in the Dakota Prairie Grasslands is down one to 2.

The number of rigs drilling on the Fort Berthold Reservation is down 4 to 21 with 6 on fee lands and 15 on trust lands.
There are now 935 active wells (96 on trust lands & 839 on fee lands)
Producing 155,332 barrels of oil per day (5,387 from trust lands & 148,594 from fee lands)
177 wells are waiting on completion
272 approved drilling permits (252 on trust lands & 20 on fee lands)
2,434 additional potential future wells (2,182 on trust lands & 252 on fee lands)

Seismic activity is steady with 4 surveys active/recording, 1 remediating, 1 suspended, and 6 permitted. There are now 4 buried arrays in North Dakota for monitoring and optimizing hydraulic fracturing.

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

US natural gas storage is now 0.8% below the five-year average indicating the price has bottomed, but low prices are still expected for the foreseeable future. Natural gas production increased 4.5% versus the 2.1% increase 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 down $0.31 to $3.20/MCF. This results in a current oil to gas price ratio of 30 to 1, but the high liquids content makes gathering and processing of Bakken gas economic. Additions to gathering and processing capacity are catching up, but the percentage of gas flared remained at 29%. The historical high was 36% in September 2011.

Draft BLM regulations for hydraulic fracturing on federal lands were published last year. BLM received over 170,000 comments and withdrew the rule. A new proposed rule was published May 24, 2013 with the comment deadline now extended to 8/23/13. All of our readers are urged to submit comments to the BLM as follows:

http://www.gpo.gov/fdsys/pkg/FR-2013-05-24/pdf/2013-12154.pdf

ADDRESSES: 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.

Personal or messenger delivery: Bureau of Land Management, 20 M Street SE., Room 2134 LM, Attention: Regulatory Affairs,Washington, DC 20003.

Federal eRulemaking Portal: http://www.regulations.gov
Follow the instructions at this Web site.

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. The revised rule provides for an operator to get a statewide exemption is the state has adopted hydraulic fracturing rules that include chemical disclosure, well construction, and well bore pressure testing. The proposal should be expanded to allow the state to apply for an exemption from the rule.
2) The revised rule provides for a type well to be used for an entire field to satisfy the pre-fracturing approval requirements. The proposal should be expanded to allow a type well to cover an entire county or basin if the geology is substantially similar.
3) The requirement to submit water source and recovered fluid disposal method encroach upon state jurisdiction over waters of the state and over underground injection control under the primacy agreement between North Dakota and the EPA.

Draft EPA Guidance for permitting hydraulic fracturing using diesel fuel was also published last year. EPA received over 97,000 comments and has set a target of Q3 2013 for final guidance document publication.