

Director's Cut

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Oil Production

December 35,733,569 barrels = 1,152,696 barrels/day
January 34,785,094 barrels = 1,122,100 barrels/day (preliminary)(all-time high was Dec 2014 at 1,227,483 barrels/day)
1,067,891 barrels per day or 95% from Bakken and Three Forks
54,209 barrels per day or 5% from legacy conventional pools

Gas Production

December 51,802,049 MCF = 1,671,034 MCF/day
January 50,784,992 MCF = 1,638,226 MCF/day (preliminary)(all-time high was Nov 2015 at 1,676,279 MCF/day)

Producing Wells

December 13,128
January 13,129 (preliminary)(all-time high was Oct 2015 13,190)
10,822 wells or 82% are now unconventional Bakken – Three forks wells
2,307 wells or 18% produce from legacy conventional pools

Permitting

December 95 drilling and 0 seismic
January 78 drilling and 0 seismic
February 70 drilling and 1 seismic (all time high was 370 in 10/2012)

ND Sweet Crude Price¹

December \$27.57/barrel
January \$21.13/barrel
February \$18.07/barrel
Today \$26.25/barrel (all-time high was \$136.29 7/3/2008)

Rig Count

December 64
January 52
February 40
Today's rig count is 33 (lowest since March 2007 when it was 33)(all-time high was 218 on 5/29/2012)

¹ Pricing Source: [Flint Hills Resources](#)

The statewide rig count is down 85% from the high and in the five most active counties rig count is down as follows:

Divide -92% (high was 3/2013)
 Dunn -87% (high was 6/2012)
 McKenzie -75% (high was 1/2014)
 Mountrail -98% (high was 6/2011)
 Williams -92% (high was 10/2014)

Comments:

The drilling rig count fell 12 from December to January and the same amount from January to February, and again into this month. Operators are now even more committed to running fewer rigs as oil prices remain at very low levels. The number of well completions remained steady from 81(final) in December to 82(preliminary) in January. Oil price weakness is now anticipated to last into at least the third quarter of this year and is the main reason for the continued slow-down. There were no significant precipitation events, 7 days with wind speeds in excess of 35 mph (too high for completion work), and 5 days with temperatures below -10F.

Over 98% of drilling now targets the Bakken and Three Forks formations.

At the end of January there were an estimated 945 wells² waiting on completion services, the same number as at the end of December.

Crude oil take away capacity remains dependent on rail deliveries to coastal refineries to remain adequate.

Low oil price associated with lifting sanctions on Iran and a weaker economy in China is expected to lead to further cuts in the drilling rig count. Utilization rate for rigs capable of 20,000+ feet is about 30% and for shallow well rigs (7,000 feet or less) about 20%.

Drilling permit activity declined December to January then fell further in January as operators continue to position themselves for low 2016 price scenarios. Operators have a significant permit inventory should a return to the drilling price point occur in the next 12 months.

Rigs actively drilling on federal surface in the Dakota Prairie Grasslands remains at 0.

² Disclaimer: The number of wells waiting on completions is an estimate on the part of the director based on idle well count and a typical five year average. Neither the State of North Dakota, nor any agency officer, or employee of the State of North Dakota warrants the accuracy or reliability of this product and shall not be held responsible for any losses caused by this product. Portions of the information may be incorrect or out of date. Any person or entity that relies on any information obtained from this product does so at his or her own risk.

Activity on the Fort Berthold Reservation is as follows:

- 6 drilling rigs (1 on fee lands and 5 on trust lands)
- 176,822 barrels of oil per day (117,199 from trust lands & 59,623 from fee lands)
- 1,426 active wells (971 on trust lands & 455 on fee lands)
- 177 wells waiting on completion
- 545 approved drilling permits (340 on trust lands & 205 on fee lands)
- 1,814 additional potential future wells (1,297 on trust lands & 517 on fee lands)

Seismic activity is up significantly. There are 8 surveys active, 6 recording and 2 NDIC reclamation projects, 0 remediating, 0 suspended, and 1 permitted.

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

US natural gas storage is now 41.5% above the five-year average indicating low prices in the future. North Dakota shallow gas exploration could be economic at future gas prices, but is not at the current price. The operator of the exploration well (file 27235) in Emmons County has received Temporary Abandoned status on 8/31/15 and cancelled all other permits in the area. The well appears to contain 2 pay sections totaling about 80 feet thick with very good gas shows.

The price of natural gas delivered to Northern Border at Watford City is down \$0.67 to \$1.12/MCF. This results in a current oil to gas price ratio of 23.4 to 1. The percentage of gas flared was down to 13%. The Tioga gas plant operated at 79% of capacity. Even though the expansion of gas gathering from south of Lake Sakakawea was approved, the approval came too late for the 2015 construction season, resulting in a 1 year delay. The January Bakken capture percentage was 87% with the daily volume of gas flared from December to January down 31.9 MMCFD. The historical high flared percent was 36% in 09/2011.

Gas capture statistics are as follows:

- Statewide 87%
- Statewide Bakken 87%
- Non-FBIR Bakken 88%
- FBIR Bakken 86%
 - Trust FBIR Bakken 85%
 - Fee FBIR 90%
- 77% January 1, 2015 through March 31, 2016
- 80% April 1, 2016 through October 31, 2016
- 85% November 1, 2016 through October 31, 2018
- 88% November 1, 2018 through October 31, 2020
- 91% beginning November 1, 2020

The North Dakota Legislature passed HB1432 which sets up a council to address Clean Water Act, Safe Drinking Water Act, Clean Air Act, and Endangered Species Act issues:

Prime Minister Justin Trudeau and President Barack Obama announced Thursday 3/10/16 their two countries will work together to reduce methane emissions from the oil and gas sector by 40 to 45 per cent below 2012 levels by 2025.

BIA has published a new final rule to update the process for obtaining rights of way on Indian land. The rule was published 11/19/15 and became effective 12/21/15. The final rule can be found at <https://www.federalregister.gov/articles/2015/11/19/2015-28548/rights-of-way-on-indian-land> . ND is reviewing the rule to determine if it will adversely impact state jurisdiction and may need to file for an injunction or stay.

BLM has published a new final rule to revise Onshore Order 4. The proposed rule would replace Onshore Oil and Gas Order Number 4 (Order 4), which sets minimum standards for the measurement of oil. Order 4 has not been updated since 1989, and does not reflect modern industry practices or standards. The proposed rule may be viewed online at www.regulations.gov . Comments on the proposed rule were due January 14, 2015. NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/BLM-Comments-OnshoreOrder4.pdf>

BLM released a proposed rule on 10/2/15 to update and replace its regulations (Onshore order 5) governing the measurement of natural gas produced from onshore Federal and Indian leases. The requirements contained in the proposed rule reflect advances in measurement technology and critical updates in industry standards and practices. It also responds directly to concerns from the Government Accountability Office (GAO), the Department of the Interior's Office of Inspector General, and Secretary's Subcommittee on Royalty Management, that the BLM's existing rules do not provide adequate assurance that gas production on public and Indian lands is being accounted for in a way that ensures that all royalties are accurately tracked and paid. The proposed rule that would replace Onshore Order 5 may be viewed online at www.blm.gov . Comments on the proposed rule were due January 14, 2015. NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/BLM-Comments-1004-AE17.pdf>

BLM released a proposed rule on 1/22/16 to update and replace its regulations on venting and flaring of natural gas. The information from public and tribal sessions in Denver, Albuquerque, Dickinson, and Washington, DC can be viewed at http://www.blm.gov/wo/st/en/prog/energy/oil_and_gas/public_events_on_oil.html . Previous NDIC comments <http://www.nd.gov/ndic/ic-press/BLM-comments-140509.pdf> . Comments on the proposed rule are due April 7, 2016 as follows: 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-AE14; Personal or messenger delivery: 20 M Street SE., Room 2134LM, Washington, DC 20003; Electronic: Federal eRulemaking Portal: <http://www.regulations.gov> Follow the instructions at this Web site. BLM held tribal/public outreach sessions as follows:

- Farmington, NM on February 16
- Oklahoma City, OK on February 18
- Denver, CO on March 1

- Dickinson, ND on March 3, NDIC is preparing additional comments.

BLM revised final regulations for hydraulic fracturing on federal and Indian lands were published in the CFR on 3/26/15 and they were scheduled to go into effect 6/24/15. North Dakota, Colorado, Utah, Wyoming, Western Energy Alliance, and IPAA filed for a preliminary injunction to prevent the rules going into effect until the case is settled. Following a lengthy hearing in Casper, Wyoming on Aug 23, the court issued a stay on the rules. On 9/30/15 the court granted the preliminary injunction, preventing the rules from being enforced until litigation on the rule is final. The 10th Circuit Court of Appeals issued an order 3/10/16 denying the industry alternative motion for a stay and requiring appellants to file opening briefs on or before 3/21/16. NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/BLM-comments-120625.pdf>

BLM has published a new final rule to revise Onshore Order 3. The proposed rule would change the way federal production is measured and allocated for calculation of royalties, require a federal Application for Permit to Drill (APD) even for state and private wells in a federal unit or communitized area (CA), and revise the situations in which downhole commingling of production from different leaseholds would be allowed. Comments on the proposed rule were due January 14, 2015. NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/BLM-Comments-OnshoreOrder3.pdf>

BLM has published the North Dakota Greater Sage-Grouse Proposed Resource Management Plan Amendment and Final EIS. Information on the plan and EIS can be found at the following web addresses: <https://www.blm.gov/epl-front-office/eplanning/planAndProjectSite.do?methodName=dispatchToPatternPage¤tPageId=48797>

EPA On December 26, 2015 a coalition of environmental organizations filed a 60 day legal notice with the U.S. Environmental Protection Agency demanding more regulation of drilling and fracking waste. The groups are the Environmental Integrity Project, Natural Resources Defense Council, Earthworks, Responsible Drilling Alliance, San Juan Citizens Alliance, West Virginia Surface Owners Rights Organization, and the Center for Health, Environment and Justice. The groups are calling on EPA to comply with its long-overdue obligations to update waste disposal rules such as instituting stricter controls for underground injection wells, banning the practice of spreading fracking wastewater onto roads or fields, and requiring landfills and ponds that receive drilling and fracking waste to be built with adequate liners and structural integrity to prevent spills and leaks into groundwater and streams. **ND is monitoring federal court docket activity and intends to intervene to prevent a sue and settle situation that would adversely impact state regulatory jurisdiction.**

EPA on December 18, 2015, EPA proposed a suite of requirements to help combat climate change, reduce air pollution that harms public health, and provide greater certainty about Clean Air Act permitting requirements for the oil and natural gas industry. The proposed actions are:

- o Proposed New Source Performance Standards – Docket ID number EPA-HQ-OAR-2010-0505. NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/EPA-HQ-OAR-2010-0505.pdf>
- o Draft Control Techniques Guidelines – Docket ID number: EPA-HQ-OAR-2015-0216. NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/EPA-HQ-OAR-2015-0216.pdf>
- o Proposed Source Determination Rule – Docket ID number: EPA-HQ-OAR-2013-0685. NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/EPA-HQ-OAR-2013-0685.pdf>
- o Proposed Federal Implementation Plan for Implementing Minor New Source Review Permitting in Indian Country – Docket ID number: EPA-HQ-OAR-2014-0606. NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/EPA-HQ-OAR-2014-0606.pdf>

EPA published an advanced notice of proposed rule-making to seek comments on the information that should be reported or disclosed for hydraulic fracturing chemical substances and mixtures and the mechanism for obtaining this information. The proposed rule-making is in response to a petition from Earthjustice and 114 other groups who are opposed to the use of the GWPC-IOGCC FracFocus website process of chemical disclosure and any type of trade secret protection for hydraulic fracturing fluid mixtures. These groups are requesting EPA regulation of chemical disclosure under the federal Toxic Substances Control Act. Thanks to all who provided comments in support of a “states first” policy. NDIC comments can be viewed at <http://www.nd.gov/ndic/ic-press/DMR-frac714.pdf>

EPA Administrator, Gina McCarthy, and the Assistant Secretary of the Army (Civil Works), Jo Ellen Darcy, signed the “Waters of the United States” final rule on 05/27/2015. The final rule was published in the Federal Register Aug 29, 2015 and became effective in 37 states on December 28, 2015. North Dakota, Alaska, Arizona, Arkansas, Colorado, Idaho, Missouri, Montana, Nebraska, New Mexico, Nevada, South Dakota, and Wyoming filed a lawsuit in U.S. District Court, claiming the final rule would harm states as regulators of the waters and lands. On December 27th Federal District Judge Erickson granted a preliminary injunction preventing enforcement of the rule in the 13 states. The North Dakota case will now be subject to appeal, but no schedule has been set at this time. NDIC comments can be viewed at <http://www.nd.gov/ndic/ic-press/WOTUS-comments.pdf>

Texas, Mississippi and Louisiana filed a joint complaint in the U.S. District Court for the Southern District of Texas, charging that the rule is unconstitutional. Ohio and Michigan filed a complaint in the U.S. District Court for the Southern District of Ohio, alleging that the expansion of jurisdiction includes dry land. Georgia and eight other states (Alabama, Florida, Kansas, Kentucky, South Carolina, Utah, West Virginia and Wisconsin) filed suit in the U.S. District Court for the Southern District of Georgia, asking the court to vacate the rule and block its enforcement by injunction. On 10/9/15 the United States Court Of Appeals for the Sixth Circuit granted a nationwide stay of the WOTUS rule pending jurisdiction determinations.

USFWS has made a decision to list the Dakota Skipper and Powershiek Skipperling to receive protection under the Endangered Species Act. Additional potential listing of concern are the Rufa Red Knot, Sprague's Pipit, Greater Sage Grouse, Monarch Butterfly, Sturgeon Chub, and Sicklefin Chub.

USFWS has published a new final rule to revise Management of Non-Federal Oil and Gas Rights. Key components of the proposed rule include: A permitting process for new operations; A permitting process for well plugging and reclamation for all operations; Information requirements for particular types of operations; Operating standards so that both the Service and the operator can readily identify what standards apply to particular operations; Fees for new access beyond that held as part of the operator's oil and gas right; Financial assurance (bonding); Penalty provisions; Clarification that the process for authorizing access to non-Federal oil and gas properties in Alaska will continue to be controlled by 43 CFR part 36, which implements provisions of the Alaska National Interest Lands Conservation Act; and Codification of some existing agency policies and practices. The proposed rule may be viewed online at <http://www.fws.gov/policy/library/2015/2015-30977.html>
Comments on the proposed rule were due February 9, 2016.
NDIC comments can be found at <http://www.nd.gov/ndic/ic-press/DMR-FWS-0086.pdf>