Crude on rails in for long haul

Plains All American's Manitous crude oil and NGL rail facility near Ross, west of Stanley in Mountrail County, North Dakota. Photo taken this winter by Vern Whitton. See rail story below.

Rail will survive pipeline additions

The need for rail to move crude from Midcontinent fields will likely persist, even if plans for expanding pipeline links from the Bakken to the Gulf Coast go ahead. EOG Resources Chief Executive Officer Mark Papa told a Colorado conference.

He said rail will still be used five years from now to deliver Bakken crude to all three Lower 48 coasts — the Gulf, East and West — but expects the current advantage of Louisiana Light Sweet, LL5, crude prices in the Houston market will probably change within 18 months.

Bakken threatens Alberta upgrader

The Bakken might be about to register a friendly-fire victim — a C$11.6 billion Suncor Energy upgrader to convert oil sands bitumen into synthetic crude for refining into fuels.

Suncor, with France's Total as a 49 percent partner, expects to decide no later than March 31 on the fate of its Voyageur project, which has been in a holding pattern for the last four years, putting an end to its original startup date of 2016.

Since taking control of the oil sands giant nine months ago, Suncor Chief Executive Officer Steve Williams has significantly shelled out to all three Lower 48 coasts — the Gulf, East and West — but expects the current advantage of Louisiana Light Sweet, LL5, crude prices in the Houston market will probably change within 18 months.

Galt: MPA ever vigilant

Numerous oil and gas-related bills have been introduced thus far in the 63rd session of the Montana legislature currently in session in Helena, and while Montana Petroleum Association Executive Director Dave Galt follows all of them closely, he recently spoke with Petroleum News Bakken and discussed those that he thinks are most important to his membership.

The key bills Galt identified fall into a variety of categories. Some deal with compensation for landowner surface damage, eminent domain and forced pooling, all of which Galt lumps together into what he considers to be "property rights" legislation. Other bills that Galt considers key deal with taxation, temporary leasing of water rights, financial relief to oil and gas-impacted communities, and carbon sequestration and enhanced oil recovery (EOR).

Helms slams U.S. Fish & Wildlife Service

Two new slides have appeared in Lynn Helms' presentation packet — slides with information that he thinks are most important to his membership.

One is a map backing up his agency's recent analysis that shows 83 percent of North Dakota's oil and gas spacing units have some federal land ownership, surface and/or minerals. Helms, director of the North Dakota Industrial Commission's Department of Minerals, Oil and Gas Division, told North Dakota lawmakers in January, "It was really sur-

WLL gets bum rap

Denver-based E&P independent Whiting Petroleum Corp. is finding it difficult convincing investors that the company is not running out of suitable places to drill.

"The knock against Whiting is that you guys don't have any inventory and in three years you're going to be done," James T. Brown, Whiting's president and chief operating officer, told industry analysts Feb. 6 at the Credit Suisse 2013 Energy Summit in Vail, Colo.

The lack-of-inventory perception seems to be particularly acute when it comes to finding new targets in Whiting's flagship Sanish field in North Dakota's Williston Basin, which accounts for around 30,000 barrels per day, or nearly 40 percent of the company's roughly 80,000 barrels per day of production.

By the end of 2012, a total of about 300 production wells had been drilled in the Sanish field, with at least another 200 to be drilled and completed.

"It seems that when we get to the end of every year, we have two-and-half to three years of drilling still ahead of us," Brown said.

Riverbedbed draws top bids

A total of 27,370 acres were leased in 306 tracts in nine western North Dakota counties in the Feb. 5 North Dakota Department of Trust Lands oil and gas lease auction bringing in a total of $24,609,206 at an average price of $899 per acre. The auction was dominated by tracts between the former high water marks on the Missouri Riverbed.

Of the 27,370 acres leased, slightly less than one-third or 9,900 acres were in Dunn County and those tracts brought in a total of $21,227,455, a sum that accounted for more than 86 percent of the gross auction proceeds.

QEP Energy high bidder on 22 Missouri Riverbed leases, shore zone included

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The Dunn County lease activity was, in turn, dominated by 22 Missouri riverbed tracts totaling 1,465 acres that fetched a total of $16,536,197 at an average price of $11,291 per acre, all purchased by Denver-based QEP Energy Co.

ASSOCIATIONS

Montana Petroleum Association chief keeps tabs on several bills during session

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Property rights: surface damage compensation

House Bill 431, introduced by Rep. Austin Knudsen of Culbertson, is a surface damage compensation bill that would add to the existing oil and gas surface damage and disruption compensation statute the definition of "lost land value" as "the value..."
WILL gets bum rap

Brown: Whiting Petroleum is not running out of drilling inventory

SIDEBAR, Page 19: Whiting looks to boost Niobrara rig count

Riverbed draws top bids

QEP Energy high bidder on 22 Missouri River leases; shore zone included

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EOG seeing downspacing successes

Houston-based EOG Resources announced in a Feb. 14 conference call that its downspacing program in its 90,000-net Bakken acreage has proven successful and that the company saw cumulative production increases of between approximately 30 percent and 70 percent in downspaced wells relative to wells previously drilled in the core area. The Houston-based independent says its 320-acre downspacing has proven successful and it is testing 160-acre downspacing.

“Our Bakken and Three Forks results during the fourth quarter were outstanding and our 2013 program should be one of our strongest in many years,” said company President Bill Thomas. “While most of the industry’s Bakken/Three Forks results are trending downward, EOG results are moving in the opposite direction. In other words, our wells are getting better.”

Overall, EOG’s gross Bakken/Three Forks production at year end 2012 was 62,100 barrels of oil equivalent per day, up from the gross production of 56,400 boepd at the end of 2011. EOG also indicated that its average estimated ultimate recovery, independent of lateral length, was 544,000 barrels of oil per well, while the North Dakota Bakken EUR average is 338,000 barrels.

Thomas cites two reasons that Bakken and Three Forks results are trending higher and why EOG expects 2013 results to be strong. “First, new frack technology is improving our wells in every area of the Bakken/Three Forks,” Thomas says. “In some cases the new frack technology used in our 320-acre downspacing in the Parshall core has resulted in a 30 to 70 percent improvement in cumulative production over the original offset wells on a per foot of treated lateral basis.”

As an example, Thomas cited the company’s Wayzetta 156-3329H, a 320-acre downspaced well completed in 2012 which had a cumulative production of 330,000 barrels of oil in the first 320 days. That well, Thomas said, is still producing at a rate of more than 800 barrels of oil per day.

“The second reason to expect strong results in 2013,” Thomas said, “is that our drilling program is directed to the Parshall core and Antelope Extension areas, which are some of the best acreage blocks in the play.” He said a recently completed Three Forks well in the Antelope Extension, the Hawkeye 102-250TH, is producing 2,945 bpd. Another recently completed Antelope Extension well, the Hawkeye 01-250TH, a Bakken formation well, is producing 2,444 bpd.

160-acre downspacing

Thomas said the company is seeing positive results from 160-acre downspaced wells. He added that EOG has completed its first two wells on 160-acre spacings in the Parshall field, and those wells, Wayzetta 022-1509H and Wayzetta 149-1483H, tested at maximum rates of 1,185 and 1,265 bpd, respectively.

“In 2012, we completed 28 net wells in the Parshall field and Antelope areas with a successful 320-acre downspacing program,” Thomas said.

“In 2013, we plan to complete 46 net wells in these same two areas.”

The company’s focus in 2013, Thomas said, will be to further downspace to 160 acres in both the Bakken and Three Forks pay intervals, as well as continue to improve frack efficiency, and to optimize the recovery factor of each play. If 160-acre downspacing proves successful, Thomas said, it will allow EOG to accelerate its development program in 2014 and beyond.

Overall, EOG is planning to complete 53 net Bakken/Three Forks wells in 2013.

“The takeaway from our Bakken/Three Forks asset is the wells are getting better with continued success in downspacing,” Thomas said. “The number of potential locations is growing and this provides us many years of high ROR investment opportunity in the play.”

Other EOG plays

While EOG is one of the top oil producers in the Williston Basin, the Eagle Ford play in Texas continues to be the company’s ‘flagship’ asset according to Chairman and Chief Executive Officer Mark Papa. EOG, he said, cut back slightly on production in the Eagle Ford in the fourth quarter of 2012, but it is ramping up production in the first quarter of 2013.

In January 2013, Papa said, the company was ramping up production in the Eagle Ford in the fourth quarter of 2012, but it is ramping up production in the first quarter of 2013.
Western Canadian junior producer Yoho Resources has reported successful drilling in the Duvernay formation’s Kaybob play in Alberta, where it has been encouraged by overall well costs and a multi-well pad operation.

The company said it drilled and completed its first two horizontal Duvernay development wells from a pad site targeting the Devonian Duvernay shale, a close geological relative of the Bakken.

The first was drilled to a depth of 16,200 feet, with a horizontal lateral of just over 5,000 feet. The well was drilled and cased over 33 days at a cost of C$4.5 million. The total estimated cost of completion is an additional C$6.6 million.

During the initial cleanup the well flowed at restricted rates of up to 8.5 million cubic feet per day, or about 2,508 barrels of oil equivalent per day, including condensate and natural gas liquids.

At the end of the 86-hour flow period the well was producing at 6.3 million cubic feet per day, or about 1,860 boe per day including condensate and NGLs.

In addition to natural gas production at the end of the flow period, the well was producing field condensate at a rate of 155 bpd, or 67 barrels of field condensate per million cubic feet of raw gas.

Yoho said it was pleased with well costs that averaged C$10 million per well — lower than the company’s cost of drilling and completing previous single well operations.

During the initial cleanup the well flowed at rates up to 3.5 million cubic feet per day, including about 913 boe per day of condensate and NGLs.

At the end of a 90-hour flow period the well was yielding 2.5 million cubic feet per day (about 590 boe per day of condensate and NGLs).

In addition to natural gas production at the end of the flow period, the well was producing field condensate at a rate of 155 bpd, or 67 barrels of field condensate per million cubic feet of raw gas.

Yoho said it was pleased with well costs that averaged less than C$10 million per well — lower than the company’s cost of drilling and completing previous single well operations.

The company said it was also encouraged by the early flow rates and flowing pressures of the wells, given that both continue to flow large volumes of completion fluid load with the natural gas and condensate.

It said the two wells will be shut-in for one month to obtain pressure information and allow the completion water to absorb into the formation.

Yoho, whose latest combined production in Alberta and the Upper Montney formation’s British Columbia was 2,200 boe per day, said its proved plus probable reserves at Kaybob are 2.74 million boe, while its “best estimate” contingent resources are 20.2 million barrels of NGLs and 163 billion cubic feet of gas.

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Let's talk about Duvernay

By GARY PARK

for Petroleum News Bakken

Yoho upbeat about Duvernay

Yoho said it was pleased with well costs that averaged about C$10 million per well — lower than the company’s cost of drilling and completing previous single well operations.

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Oasis output up 101%, capex stable

By MIKE ELLEND
For Petroleum News Bakken

Bakken-focused independent Oasis Petroleum says its average daily Williston Basin oil production more than doubled in 2012 to 20,581 barrels per day from the 10,226 bpd the company produced in 2011, an increase of approximately 101 percent.

Likewise, the company’s natural gas production increased from 3 million cubic feet per day in 2011 to 11.3 million cubic feet per day in 2012, an increase of 277 percent.

Combined, the company’s overall average Williston Basin production increased 110 percent from 10,724 barrels of equivalent per day in 2011 to 22,469 boepd in 2012.

Compared to overall production in the third quarter, the Houston-based independent’s Williston Basin production increased to 27,556 boepd in the fourth quarter, up 13.6 percent from the 24,257 boepd production in the third quarter of 2012.

“We more than doubled production for the second straight year, growing 2012 production to 22,469 barrels of oil equivalent per day,” said Chairman and Chief Executive Officer Thomas Nusz in a Jan. 31 press release. “The team made significant strides during 2012, laying a firm foundation for continued growth into 2013.

The latest North Dakota Oil and Gas Division daily production statistics reported by Petroleum News Bakken showed Oasis ranked 13th among the state’s top oil producers in November 2012, based on the number of wells it operated.

More wells in production

Oasis also announced that it completed and put into production 117 gross operated wells (93.5 net) in 2012, and as of Dec. 31 had a total 206 gross operated (210.2 net) wells producing in the Williston Basin. Approximately 90 percent of Oasis’ wells were connected to natural gas infrastructure at the end of 2012.

The company also had 21 gross operated wells waiting to be completed as of Dec. 31. Another 11 gross wells were being drilled. Oasis is currently running a nine rig drilling program, and as of Dec. 31, two of those nine rigs were pad drilling two wells each.

The company is targeting both the middle Bakken formation member, the most prolific in the Bakken petroleum system, and all benches of the Three Forks formation, also part of the Bakken system.

In 2012 it completed 13 test wells in the first bench of the Three Forks, and as of the end of December, it had nine other wells either being drilled or awaiting completion.

In 2013 the company is planning 20 additional wells to better understand the Three Forks in its core areas, along with six pilot wells that will include cores and high resolution logs in order to evaluate all benches of the Three Forks formation.

Acreage increases

Oasis added 27,953 net acres to its leasehold position, bringing its leasehold total to 335,383 net acres, an increase of 9 percent over the company’s total of leasehold of 307,430 acres at the end of 2011. Approximately 90 percent, or some 305,000 acres of the company’s total acreage, lies in three core areas, the largest of which is the West Williston area totaling 208,062 acres in Williams and McKenzie counties of North Dakota and Roosevelt and Richland counties of Montana.

The East Nesson core area consists of 118,943 acres in Burke and Mountrail counties. The Sankish core area, which is non-operated, totals 83,788 acres in southern Mountrail County. Approximately 87 percent of the company’s acreage is currently being held by production.

“The land team, working closely with our asset management team, has done an extraordinary job high-grading and adding to our core acreage position in the Williston Basin,” said Executive Vice President and Chief Operating Officer Taylor Reid. “We now have approximately 305,000 net acres that we believe are core based on prospectivity for the middle Bakken, and we include about 110,000 (36 percent of core net acres) of those net acres in our primary inventory for the TFS. Additionally, our significant investment in drilling activities has enabled Oasis to increase its acreage that is held by production to approximately 264,595 as of year-end 2012.”

Moving more oil by rail

At the end of 2012, Oasis had approximately 60 percent of its gross operated oil volumes in its third party oil gathering system, which the company says provides access to numerous rail and pipeline delivery points allowing the company to increase rail transport in the fourth quarter, thus improving price differentials against West Texas Intermediate. “Because of the flexibility that this system provides, we were able to shift volumes from approximately 50 percent rail and 50 percent pipeline earlier this year to approximately 80 percent rail and 20 percent pipeline in the fourth quarter of 2012. With the shift, we delivered our best oil differentials to date during the quarter at less than 2.5 percent versus WTI,” Reid said in the press release.

Drilling efficiencies

Oasis saw a 16.5 percent reduction in...
North Dakota Senate Majority Leader Rich Wardner is one of the longest serving members of the North Dakota legislature, having served in the House from 1991 to 1997, and in the Senate since 1998. A retired educator and farmer, Wardner lives in Dickinson and is a former executive director of the Dickinson Area Chamber of Commerce. Wardner agreed to share his views with Petroleum News Bakken on some specific oil and gas-related bills being considered in the current North Dakota Legislative Assembly.

Petroleum News Bakken: Among the provisions contained in Senate Bill 2336 is a reduction of the extraction tax on oil from the current rate of 6.5 percent to 4.5 percent, bringing the total oil tax from the current 11.5 percent down to 9.5 percent. At the same time, the bill would eliminate potential revenue losses to the state of up to $2 billion if the price of oil falls below $52.50 per barrel for any consecutive five month period. What are your thoughts on this bill and in particular on the lowering of the state’s oil extraction tax bill the tax would provide?

Wardner: SB 2336 does the following:
• The bill increases the tax paid on Bakken and Three Forks wells located on stripper well properties. The estimate is this provision will generate an additional $500 million over the 2017-2022 five-year period.
• The 2 percent reduction in the extraction tax applies only to new wells drilled starting in 2017. Current oil production and any new wells drilled before 2017 will not benefit from the reduction.
• This bill eliminates current price triggers for old wells. The oil tax on an old well is reduced by $2 billion per biennium, or to put it another way, this bill increases oil taxes by $2 billion a biennium should volatile oil prices realize a major downturn. Petroleum News Bakken: Several other bills have been introduced that would, in one way or another, lower taxes on oil and gas companies, such as House Bill 1234 that would reduce the oil extraction tax depending on statewide average production levels, and HB 1250 that would lower individual and corporate income tax rates. What are your thoughts on these bills and how do you view the current tax structure in North Dakota as it relates to the oil and gas industry?

Wardner: HB 1234 reduces the oil extraction tax from 6.5 percent to 4 percent as state daily average production increases from the current 730,000 barrels to over 1,500,000 barrels. HB 1250 changes the top corporate tax rate from 6.5 percent to 6 percent. This bill will provide $140 million of relief to North Dakota corporations. Both HB 1234 and HB 1250 are bills that encourage companies and corporations to invest in North Dakota creating high paying jobs. In the end we will have to bring all these bills together and put together one unified package.

Petroleum News Bakken: The stripper well tax relief issue has been addressed in several recent legislative sessions, but no such legislation has ever passed. As you know, several bills have been introduced in the current legislative session again addressing stripper wells. One is HB 1134 that simply changes the application of the tax structure from a stripper well property to a specific well so that other wells in a particular spacing unit are not necessarily eligible for the tax relief. In addition, there is a provision in SB 2336 that increases the production threshold for a stripper well in the Bakken and Three Forks formations from 30 to 45 barrels per day. What are your thoughts on the stripper well issue? Do you believe that some type of stripper well legislation will pass in the current legislative session?

Wardner: In North Dakota the certificated stripper well properties are taxed only on the 5 percent production tax and exempt from the 6.5 percent extraction tax. A certified stripper well is one that has averaged 30 barrels a day for one year in the Bakken and Three Forks Formations. When the stripper well property laws were passed back in the 1980s the state was dealing with vertical wells on small 160 acre spacings and pulling oil out of a pool. Today the state is dealing with horizontal drilling wells on 1280 acre spacings and pulling oil out of fracked shale. If you drilled a second vertical well in a pool it would produce similar to the stripper well already there producing, but if you drill a second well horizontally in the Bakken or Three Forks and frack it on a 1280 acre spacing, the new well will produce 1,000–plus barrels per day. The legislation was not meant to give a tax break to high producing wells. Currently there are approximately 200 to 300 stripper well properties that have high producing wells. Yes, the legislature will correct the stripper well legislation to individual stripper well in the Bakken and Three Forks Formation. The jury is still out on changing a qualified stripper well production in the Bakken or Three Forks from 30 barrels to 45 barrels per day. The arguments for this provision are increased costs to drill, produce, and maintain the wells.

Petroleum News Bakken: Three bills have been introduced that address flaring of natural gas. One, HB 1134, provides tax incentives for operators to find alternate uses for natural gas, while SB 2370 provides tax incentives for the installation of gas gathering pipeline systems. Wardner: HB 1347 would require installation of flowmeters and pressure cutoff switches on all pipelines, including saltwater pipelines that are not regulated by the Public Service Commission. Another bill, HB 1349, would establish new surface reclamation requirements, including reserving the top eight inches of soil from all areas to be disturbed at well sites and on roadways. Do you believe current pipeline and surface reclamation practices are inadequate and warrant these proposed regulations?

Wardner: We need to do a better job with pipeline registration and making sure abandoned pipelines are taken care of properly. HB 1347 does address some of those concerns. HB 1349 is a legislative study that will focus on oil and gas reporting requirements. The bill does not mean to give a tax break to high producing wells. Currently there are approximately 200 to 300 stripper well properties that have high flaring wells. Yes, the legislature will correct the stripper well legislation to individual stripper well in the Bakken and Three Forks Formation. The jury is still out on changing a qualified stripper well production in the Bakken or Three Forks from 30 barrels to 45 barrels per day. The arguments for this provision are increased costs to drill, produce, and maintain the wells.

Petroleum News Bakken: Three bills have been introduced that address flaring of natural gas. One, HB 1134, provides tax incentives for operators to find alternate uses for natural gas, while SB 2370 provides tax incentives for the installation of gas gathering pipeline systems.
MDU, Calumet team up on 20,000 b/d refinery

By RAY TYSON

MDU Resources Group Inc. and Indiana-based Calumet Specialty Products Partners L.P said they have formed a joint venture to build and operate a diesel refinery in southwestern North Dakota. The joint venture will be called Dakota Prairie Refining LLC.

The facility would process 20,000 barrels per day of Bakken crude oil, and construction could begin this spring, and is expected to take up to 20 months, the partners said.

MDU Resources, an energy, construction and transportation company based in Bismarck, N.D., said its participation in the joint venture is through its wholly owned subsidiary, WBI Energy Inc.

The new plant would be on a 318-acre site located west of Dickinson in Stark County. It would employ about 100 persons, MDU Resources said, noting that hiring and training of operating personnel is expected to begin in 2013. The plant will employ its own plant manager and manage ment team, who will report to a governing board composed of representatives of WBI Energy and Calumet.

Contractors selected

The facility’s engineering and plant design are in the final stages, the partners said, adding that Westcon has been selected as the general contractor, and Vectech Engineering will be the primary equipment and technology provider. MDU Resources’ construction businesses, Knife River Corp. and MDU Construction Services Group, are among potential subcontractors.

Other MDU Resources’ companies involved in the project include Fidelity Exploration and Production Co., which will supply some of the facility’s crude oil; WBI Energy, which will supply natural gas service to operate the facility; and Montana-Dakota Utilities, which will supply the facility’s electricity requirements.

Calumet processes crude oil and other feedstocks to customized lubricating oils, solvents and waxes used in consumer, industrial and automotive products. It also produces fuel products including gasoline, diesel and jet fuel. The company is based in Indianapolis and has 11 facilities located in northwest Louisiana, northwest Wisconsin, western Pennsylvania, Texas and eastern Missouri.

Continuing expansion

David L. Goodin, president and chief operating officer of MDU Resources, said the joint venture would allow MDU Resources to continue expanding both its midstream energy business and investment in the Bakken oil play.

“There is a strong existing market for the plant’s production,” he said, adding that southwestern North Dakota also will benefit from the plant’s high pay scale, long-term jobs and from the two companies’ long-standing commitment to the communities in which they operate and serve.

“All of our major businesses within MDU Resources have the potential to participate in this project,” Goodin said. “This demonstrates the strength of our business operations according to Nusz, but as the company has experienced in past years, “production growth will be weighted towards the back half of the year.”

Contact Mike Elled
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OASIS OUTPUT

well costs from $10.5 million in the first half of the year to $8.8 million per well at the end of the year. And in 2012, the company’s fracking subsidiary Oasis Well Services began fracking operations on the company’s operated wells, further controlling well costs.

Oasis has been transitioning to pad drilling, and in 2013 the company expects to develop between 60 percent and 70 percent of its wells on pads, which is expected to further increase well cost efficiencies.

The company plans to have four Bakken and three Three Forks wells per pad, but is also planning to test infill densities that could allow up to six wells per formation on each pad.

Nusz says Oasis is expecting well costs at between approximately $8.5 and $8.7 million per well in 2013, which will result in total drilling and completion cost savings of approximately $110 million.

Outlook for 2013

Oasis estimates its net proved reserves as of Dec. 31 at 143.3 million barrels of equivalent, which represents an increase of 82 percent over the 78.7 million barrel net proved reserves estimated at the end of 2011. Estimated net proved developed reserves as of Dec. 31 were 70.0 million barrels, almost double the 35.8 million barrel estimate at the end of 2011.

The company estimates its total 2012 capital expenditure at between $1.145 billion and $1.155 billion, and is planning a 2013 capital expenditure of $1.020 billion, of which $906 million is earmarked for exploration and production.

Oasis anticipates daily production to continue to increase in 2013 to between 30,000 and 34,000 boepd, and plans to complete approximately 128 gross (92.5 net) operated wells and 10.9 non-operated wells in the Williston Basin. Production growth, however, is expected to be “moderate” in the first two quarters of 2013 due to winter weather, spring breakup and infill operations according to Nusz, but as the company has experienced in past years, “production growth will be weighted towards the back half of the year.”

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Nominations out for March 5 Montana oil and gas lease auction

By MIKE ELLERD For Petroleum News Bakken

On Feb. 8, the Trust Land Management Division of the Montana Department of Natural Resources and Conservation released the list of tracts to be offered in its March 5 oil and gas lease auction, a total of 14,021 acres in 29 tracts in eight counties, most of which are in eastern and northeastern Montana.

The tracts to be offered are in the following counties:
- Daniels (2,749 acres in seven tracts), Dawson (3,194 acres in five tracts), Fallon (1,440 acres in three tracts), Glacier (720 acres in two tracts), Musselshell (2,533 acres in four tracts), and other counties.

Notice to Readers

Re. charts tracking ND, MT legislation

Petroleum News Bakken will no longer publish charts listing the status of oil and gas-related bills moving through the current North Dakota and Montana legislative sessions.

The North Dakota Petroleum Council (NDPC) and Montana Petroleum Association (MPA) closely monitor all oil and gas-related bills in their state legislatures and often testify at committee hearings, and they provide regular bill status updates to their members. Because of their daily involvement in the legislative processes, Petroleum News Bakken feels NDPC and MPA are in a better position to provide the most current and through legislative information to the oil and gas industry.

The North Dakota Petroleum Council can be reached at 701-223-6380, and its website is www.ndoil.org.

The Montana Petroleum Association can be reached at 406-442-7582, and its website is www.montanapetroleum.org.

Petroleum News Bakken will continue to focus on individual pieces of legislation and individual legislators and will report on these accordingly.

—KAY CASHMAN

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REFINERY VENTURE

model, in which businesses with diversified capabilities work together to provide value-added benefits."

The joint venture also allows Calumet to continue its plan of diversifying into geographies with favorable feedstock options and niche product markets, said Jennifer G. Straumins, president and chief operating officer of Calumet’s general partner.

"North Dakota is experiencing rapid growth, and we’re excited to join arms with a well-respected company like MDU to help provide solutions to the region," she said. "The state of North Dakota has been a pleasure to work with, and many opportunities lie ahead for everyone involved here."

State goal

North Dakota Gov. Jack Dalrymple said the development of a second oil refinery in the state has been a longtime goal of the state.

"The decision by MDU Resources and Calumet to move forward on a new diesel refinery is good news for North Dakota and the entire nation," he said. "This project will be built by the private sector. It will create more jobs, it will help to further diversify our economy and it will increase the region’s supply of diesel fuel."

He said North Dakota’s Department of Commerce would continue working with MDU and Calumet “to move this project forward.”

Goodin and Straumins said in a joint statement that North Dakota has been a pleasure to work with, and many opportunities lie ahead for everyone involved here."

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He said North Dakota’s Department of Commerce would continue working with MDU and Calumet “to move this project forward.”

Goodin and Straumins said in a joint statement that North Dakota is challenging the partners with a rigorous permitting process “that will help ensure this state-of-the-art facility operates responsibly and safely, and becomes an important contributor to the local and state economy.”
MDU Resources suffers gas hangover

Still suffers from low gas prices, records $246.8M in write-downs; but led by Fidelity's success in Bakken, Paradox output up 59%

By RAY TYSON
Petroleum News Bakken

The ill effects of weak natural gas markets continue to weigh on MDU Resources Group Inc., despite becoming a more oil company last year through its exploration and production arm, Fidelity E&P Co.

MDU, which uses the full-cost method of accounting, was forced to write-down a count of its reserves last year. Nevertheless, MDU did continue rebalancing its production portfolio in 2012, with total liquids accounting for about 52 percent of production in the fourth quarter, up from 34 percent a year ago. Oil alone represented 44 percent of production.

But the increase was partially offset by decreased natural gas production of 31 percent, higher depreciation, depletion and amortization expense, as well as lower average realized natural gas liquids and natural gas prices of 33 percent and 8 percent, respectively.

In the fourth quarter, net of the non-cash write-down, our exploration and production business reported its highest quarterly earnings since 2009, noted David L. Goodin, president and chief executive officer of MDU Resources.

MDU said it plans to invest about $400 million on its exploration and production business in 2013, with a significant portion of the capital allocated to development areas. The company currently has five rigs drilling in the Bakken, one in Paradox and one in Texas. The Bakken is to get about $200 million.

Focus on high returns

With improving well-cost efficiencies and having essentially completed its 2012 exploration program, MDU said, this year’s capital program will focus on growth projects where the company expects higher returns, namely the Bakken, Paradox Basin and Texas.

Follow-up on development activity of the 2012 exploration program — beyond the activity in the Paradox — could take place in late 2013 or early 2014, depending on “the economic competitiveness of those plays once they are fully appraised,” MDU said.

However, the 2013 planned capital expenditure total does not include potential acquisitions, the company said.

9.9 million boe added

The company’s oil additions in 2012 were 9.9 million barrels of oil equivalent, a 267 percent replacement of oil production. Natural gas liquids added were 1.8 million boe, or 219 percent of natural gas liquid production.

Total gas reserves dropped from 97.7 million boe at year-end 2011 to 80.5 million boe at year-end 2012. For 2012, MDU expects a 25- to 30 percent increase in oil production, a flat to slight increase in natural gas liquids, and a 15- to 25 percent decrease in natural gas production.

MDU businesses, in addition to exploration and production, include electric pipeline and construction segments. The group had a consolidated loss for 2012 of $1.4 million, or 1 cent per common share, compared to 2011 earnings of $221.3 million, or $1.12 per share. Adjusted earnings were $216.8 million, or $1.15 per common share for 2012 compared to 2011. The company reported a consolidated loss for the fourth quarter of $61.2 million, or 32 cents per share, compared to 2011 fourth quarter earnings of $60.8 million or 32 cents per share. Adjusted earnings were $76.0 million, or 40 cents per common share, compared to $79.9 million, or 39 cents per share in 2011.

Contact Ray Tyson at raytonyson@petroleumnews.com

State Summary Report December 2012

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Contact Mike Ellerd at melleld@petroleumnewsbakken.com

Petroleum News Bakken

DRILLING & COMPLETION

New record high for ND oil production

Preliminary oil production numbers released Feb. 15 by the North Dakota Industrial Commission Department of Mineral Resources Oil and Gas Division indicate that average daily oil production in the state was 768,852 barrels per day in December, a 4.4 percent increase over the 735,061 bpd produced in November.

As Petroleum News Bakken reported in late November, MDU has completed the first decline in North Dakota oil production in the previous 19 months when production fell 2.2 percent from the 749,212 bpd production in October. The preliminary December production represents a 2.6 percent increase over the October production and is a new record high in daily North Dakota oil production.

The number of producing wells was also up in December, increasing from 8,122 in November to 8,224 in December.

Preliminary December natural gas production increased 6.2 percent over November.

Petroleum News Bakken has just begun compiling average daily production in Montana’s side of the Bakken, and in December that average daily production was 36,138 bpd.

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LEASE AUCTION

Richland (1,936 acres in four tracts), Roosevelt (169 acres in two tracts) and Valley (1,280 acres in two tracts).

“The majority of tracts nominated for the March 5th sale are Williston Basin acreage in eastern Montana. This reflects the continued interest in finding new reserves that can be economically produced using horizontal wells,” Minerals Management bureau chief Monte Mason told Petroleum News Bakken.

The total acreage offered in the March auction is over double the 6,842 acres that were leased in the December auction, but is far below the 115,568 acres leased in the March 2012 auction. A total of 73,185 acres were leased in the June 2012 auction, and 17,676 acres were leased in the September 2012 auction.

The March auction will begin at 9 a.m., Mountain Standard Time, in the auditorium at the Montana Department of Transportation building in Helena.

The DNRC’s June lease auction is scheduled to begin at 9 a.m. Mountain Daylight Time June 4 and that auction will also be in the transportation department auditorium in Helena. The deadline for nominations for the June auction is 5 p.m. Mountain Daylight Time on March 19.

Contact Mike Ellerd at melleld@petroleumnewsbakken.com

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$246.8 million

Petroleum News Bakken

WEEK OF FEBRUARY 17, 2013

• COMPANY UPDATE

Petroleum News Bakken
praising to me when we did this analysis to find out that 83 percent of our spacing units have some federal lands in them, even though only 10 percent of the land in North Dakota is federal."

The second slide contained an undated letter sent via email from a U.S. Fish and Wildlife Service official dealing with, among other things, the U.S. Endangered Species Act, which Helms thinks "is equal to or even worse than what could happen" to North Dakota's oil industry and new-found state wealth should the U.S. Bureau of Land Management enact its proposed hydraulic fracturing rules.

Neither Helms' office nor Fish and Wildlife could find the original email but from its contents it appears it was sent in the last half of 2012.

"Basically the desire of U.S. Fish and Wildlife is to force every drilling permit through our office, and have final drilling approval on every drilling permit. Using the whooping crane, using the golden eagles and the bald eagles and all of that. And there's a new little bird that they are talking about (putting on the endangered species list) — it's called the Sprague's pipt. He lives over most of western North Dakota and he won't cross roads, so he has the ability: if he gets listed, to make us stop building roads," Helms said.

The email, from Jeff Towner, field supervisor for Ecological Services, U.S. Fish and Wildlife Service, in North Dakota, "really highlights the issue," Helms said, pointing to a paragraph he highlighted in red on the slide, which reads, "Oil companies and any other entity must ensure that their activities do not result in a violation of the Endangered Species Act, Migratory Bird Treaty Act, and the Refuge Improvement Act. The only way an entity can be assured that they will not incur a violation from their proposed development in North Dakota is to receive a letter signed by me to that effect, or to apply for and receive a permit to take a protected species."

Towner told Petroleum News Bakken that Helms' accusation is "ridiculous and misinformed. Our agency has no such intention to become involved in the state permitting process, nor do we even have the authority to do so."

But Helms sees things differently: "As you see in the letter," he told the House Appropriations Committee in January, "our local director of U.S. Fish and Wildlife would like to have final approval on every drilling permit because we have whooping cranes that overfly the state."

Towner's letter did not actually mention whooping cranes, but the big birds' annual migration through North Dakota is part of the federal agency's jurisdiction, and mandate to protect.

Executive order gone wrong?

Helms is concerned about the danger Fish and Wildlife and other federal agencies pose to North Dakota's oil and gas industry because of the longer permitting process demanded by federal law and regulation — a process that he says can lengthen permitting from its current 18 days with the state to well over a year. And although some oil companies will weather that delay and still drill, the restrictions demanded by the various federal agencies and the time delay can be costly, making North Dakota a less competitive place to do business.

He points to the impact of a presidential order released by the White House last year, "asking the federal agencies to … get together and figure out where their authorities were over oil and gas and hydraulic fracturing" as an instigator.

The order from President Barack Obama, "got everybody involved," including the U.S. Geological Survey, or USGS, looking at earthquakes and everything else, "triggering a possible need for North Dakota to take legal action against one or more federal agencies, Helms said, should they make a move that results in a longer, more onerous permitting process for oil and gas activities.

The Executive Order, or EO, Helms referred to in his presentation was issued in mid-April, in what supporters described as an attempt by Obama to coordinate the efforts of many federal agencies so the federal government could speak with one voice on the topic of hydraulic fracturing.

The American Petroleum Institute issued a press release supporting the action. The new EO, dubbed "Supporting Safe and Responsible Development of Unconventional Domestic Natural Gas Resources," created a working group of 13 executive branch departments or agencies, with the option to throw in anyone else they deemed necessary.

The group was tasked with coordinating policies between the departments and agencies, sharing research and information on fracking, and in general guaranteeing the federal government could speak with one voice on the subject.

"We're pleased that the White House recognizes the need to coordinate the efforts of the 10 federal agencies that are reviewing, studying or proposing new regulations on natural gas development and hydraulic fracturing," Jack Gerard, API president and chief executive officer, said after attending an April 13 White

continued from page 1

PERMITTING

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PERMITTING

House meeting on the EO.

“We have called on the White House to rein in these uncoordinated activities to avoid unnecessary and overlapping federal regulatory efforts and are pleased to see forward progress.”

But some political experts speculated that with the Environmental Protection Agency, or EPA, about to release new air pollution regulations for shale gas drillers and a draft permitting guidance for using diesel in oil and gas hydraulic fracturing, and with the Department of the Interior working on new fracking regulations for drilling on public lands, that the Obama administration made the move in an election year to tone down the activist tendencies of the executive branch — at least until the election was over.

Helms’ statement ‘ridiculous and misinformed’

So what does Fish and Wildlife’s Jeff Towner have to say about Helms’ accusation that he wants final approval on every drilling permit in North Dakota?

“It’s one of the most ridiculous and misinformed series of statements I have heard in my entire 34-year federal career,” Towner said Feb. 12 in response to Helms’ charge and related statements made in front of the House Appropriations Committee in Bismarck.

In his letter to Helms, Towner expressed frustration with the North Dakota Industrial Commission, or NDIC, and its “nearly complete lack of understanding … of the Fish & Wildlife Service’s authorities” and, in a case cited in the correspondence, giving “a false impression that a simple screening of areas where piper plover critical habitat occurs is all that a company needs to worry about.”

In the case of issuing a permit to take a member, or members, of a protected species in the event such a thing occurred as a result of oil and gas activities, Towner said Fish and Wildlife provides comments and advice “on a daily basis for innumerable companies and federal permitting agencies. … In my nine and a half year tenure in this job, I have not received a single request from an oil company for a review of their proposed development and confirmation that their activities are in accordance with the federal laws we implement where there was not a federal nexus” — a federal licensing permitting, or funding agency.

He also said he found it “increasingly difficult to understand” why Helms continues “to insist that there is some sort of effective system in place by which NDIC refers companies to the Fish and Wildlife Service and further that we are actually being contacted by companies, because neither point is accurate.”

And while Towner said he appreciated one instance of cooperation from NDIC via a “Mr. Holweger,” that if NDIC wanted to be effective in advising companies of our program, and their need to coordinate their plans with the Fish and Wildlife Service, that you would routinely refer companies to this office so that we can advise them vis-à-vis all relevant federal wildlife laws, regardless of the presence or absence of piping plover critical habitat.

Fish and Wildlife starts reaching out

Towner began talking to industry two years ago in a series of meetings initiated by the North Dakota Petroleum Council.

Towner also sent a letter in late September to more than 300 oil, gas and pipeline operators, asking companies to “cooperate” with Fish and Wildlife Service, “so we can get a handle on what the impacts are and head off those impacts.”

In that letter it explains there is a “common misperception among oil companies and their consultants about the “applicability of federal wildlife law.”

“It is a common misperception that if there is no federal nexus … and in particular, if activities occur on private land and/or with private minerals, that federal wildlife law does not apply. This is incorrect,” Towner wrote in the letter. “Any see PERMITTING page 12
Enid thriving without Continental

Devon Energy’s Bill Whittsit: U.S. in ‘midst of an energy revolution with a real prospect to become energy independent’

Compiled by Steven Nelson for Petroleum News Bakken

Worries of an economic slump for the north-central Oklahoma community of Enid were justified when Continental Resources finished moving its headquarters and 250 employees south to Oklahoma City in March. The high-profile Bakken producer occupied an office downtown and was a long-standing community investment.

But those fears have been put to rest, according to a recent article in The Journal Record of Oklahoma City, which reported that unemployment was down, sales tax collections were up and more businesses were moving into Enid’s downtown area.

The region’s economic diversity was already strong due to a nearby Air Force base as well as a food production and distribution company, but more recently energy-related projects have provided an economic boost as well. Construction of the Chisholm View Wind Project near Enid, and by increasing activity in the Mississippian Limestone Play in northwest Oklahoma have major roles in Enid’s economy, Brent Kading, executive director of the Enid Regional Development Alliance, told The Journal Record.

“The Mississippian Play is what is driving the northwestern Oklahoma economy right now,” Kading told the newspaper. “It’s why our hotel rooms are full and sales tax collections are up.”

Downtown investment has increased since Continental left Enid for Oklahoma City in March, according to The Journal Record.

“We have had 12 new businesses open since April and that is just downtown,” Kelly Tompkins, Main Street Enid program manager, told the newspaper.

Continued from page 3

EOG SUCCESSES

EOG has completed its highest initial producing well in that play to date. That well, he said, tested at 6,330 bpd. Furthermore, Papa said EOG expects the aggregate production within the next two years.

The company also has operations in the Leonard and Wolfcamp plays in the Permian Basin, and the Barnett Combo in the Williston Basin, which has since been known as the Bakken.

Capital expenditure for 2013 will focus on the Eagle Ford and Bakken plays. “EOG’s demonstrated ability to organically grow crude oil volumes should lead to strong 2013 returns,” Papa said in a Feb. 13 press release.

“Until other commodity prices stabilize, we are directing EOG’s capex dollars almost exclusively toward crude oil exploration and development. Leading with our Eagle Ford and North Dakota operations, EOG is well positioned to achieve its game plan, while identifying strategic marketing advances that will further strengthen our position. With the most attractive drilling program in place to make 2013 another outstanding year,” he said.

Contact Mike Elliott

at melliott@petroleumnewsbakken.com

In Other News

continued from page 11

PERMITTING

party is liable for the unauthorized take of any trust resources covered by the above laws, and it is incumbent on any party to ensure that their activities do not result in a violation of these laws, regardless of surface ownership, mineral ownership or involvement by a federal surface owner or licensing, permitting or funding agency."

And best management practices, or BMPs, are “not a substitute for coordination and do not ensure that federal wildlife laws have been complied with,“ he said.

In order for companies to protect themselves from “potential liability for activities without a federal nexus, and to assist in the long-term conservation of fish and wildlife resources,” Towner encouraged the oil and gas industry to “share their plans with us well in advance of project implementation.”

Fish and Wildlife Service would be “able to provide species information and recommendations to avoid, minimize, and where appropriate, mitigate for any impacts. Protection from liability for unauthorized take of federal trust species can only be obtained by written confirmation from this office, or issuance of a permit to take, as appropriate,” Towner said in the letter.

Any information that a company considers proprietary would be kept confidential, he said.

Towner said he recognized that “project-by-project reviews would involve significant workload implications” both for the companies and Fish and Wildlife, so he suggested a “programmatic approach,” which would be “more efficient and effective.”

Towner told Petroleum News Bakken that Fish and Wildlife is "urging the companies to share development plans for all leases that are not yet developed, so that we can make an assessment, together with the companies, of the anticipated fish and wildlife impacts, and to cooperatively craft wildlife protection plans on a programmatic, forward-looking basis." But in his email to Helms, Towner said his office had “recently begun discussions with one oil company in looking at their future development plans, and jointly preparing a wildlife conservation plan.”

He said hoped it would “serve as an example to other companies.”

However, Towner told Petroleum News Bakken earlier in February that although preliminary discussions have been held with a handful of companies, to date no oil and gas company has followed through with an agreement to work together.

Note: The legal battle has already begun between U.S. Fish and Wildlife Service and the oil industry and the State of North Dakota regarding the Migratory Bird Treaty Act. First round went to the court in Bringham Oil and Gas, L.P., 2012 WL 120055 (D. N.D.), issued Jan. 17, 2012, when a federal district court in North Dakota dismissed several criminal complaints against seven oil and gas companies:


Watch for part two of this article in the March 3 issue of Petroleum News Bakken, the first weekly edition of the newspaper, which has here-to-fore been published twice a month.

—KAY CASHMAN

Contact Kay Cashman

at pub@krex.com
There's New Energy Soaring Into North Dakota

With Halčon Resources soaring into the Bakken, there’s new energy coming into local communities. Spanish for “hawk”, Halčon was founded by energy industry leaders committed to treating your hometown like our hometown. That means being a good neighbor, creating positive relationships with landowners and making safety and the environment a top priority.

We are proud to be taking flight again as Halčon - an independent energy company focused on the acquisition, production, exploration and development of onshore liquids-rich assets in the U.S.
### IPs for producing oil wells recently completed

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| IPs for ND Bakken wells Jan. 16 - Feb. 11

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| IPs for oil wells released from tight hole status

### LEGEND

The well-operator's name is on the upper line, followed by individual wells with data in this order: NDC, file number, well name, field, location, spacing, county, wellbore type, total depth, IP last date, IP flow rate. (IP stands for initial production; in this chart's Fig. 1 it's the first 24 hours of oil production.)
Alaska's governor is hoping to change the state's oil tax regime, and thus authorized the Alaska Department of Revenue to hire economist Barry Pulliam of Econ One Research to compare the current system (solid blue line in adjacent charts) with his proposed new one (broken blue), as well as compare Alaska with top resource plays, including North Dakota's Bakken (solid orange) and South Texas' Eagle Ford (broken orange).

The adjacent charts are two of several in Pulliam's recent presentation (http://bit.ly/Zdlgo4) Alaska lawmakers.

High oil prices have meant increased investment elsewhere, but not in Alaska, Pulliam said, even though less than half the oil considered recoverable from the North Slope, 16 billion-barrels-plus, has been produced.

What's left is challenging, it's offshore, and what is onshore "is higher cost and going to be more challenging to get at."

In the top chart Econ One looked at a 50 million barrel development, evaluating net present value, or NPV — the value of the stream of payments expected over time, based on an investment made today, discounted at 12 percent. It also looked at internal rate of return, or IRR, a hurdle rate companies use to compare projects; cash margins, the cash a project is expected to generate; and government take.

Among those comparisons the Bakken offered the best cash margins, but the lowest IRR up to $140 per barrel. The Eagle Ford's IRR, however, was consistently better than that of the Bakken.

The Bakken also had the highest government take until $100 per barrel oil when Alaska took the top spot.

In the bottom chart Econ One looked at a 150 million barrel development, using the same metrics. The Bakken had the lowest NPV and government take, but the highest cash margin and IRR up to $140 per barrel oil when Alaska took the top spot.

The Bakken also had the highest government take until $100 per barrel oil when Alaska took the top spot.
Re-issued locations

In Richland County, two Bakken formation wells were approved. Continental Resources Inc. was given the go-ahead for the Rubin 1-9H, with an SHL at NW SE 11-26N-55E (2010 FNL/1980 FWL) and a PBHL of 19,979 feet at NW NE 4-26N-55E (2029 FNL/1980 FWL). Slawson Exploration Co. Inc. was OK’d for the Scabbard 1-34H, with an SHL at NW SW 8-35N-51E (2417 FSL/3200 FWL) and a PBHL of 11,791 feet. The well has an SHL at SE SE 9-35N-51E (2029 FNL/750 FWL). The reported IP is 172 BOPD, 18 MCFPD and 323 BWPD. XTO also reported the completion of the Hanson 44X-26B in Richland County. The well has an SHL at SE 26-35N-51E (873 FSL/4320 FWL) and a BHL of 20,320 feet at NW SW 27-35N-51E (2029 FWL/267 FWL). The well turned in an IP of 304 BOPD, 17 MCFPD and 2,270 BWPD. Both of the XTO wells were approved from the Bakken formation.

In Sheridan County, TAQA North America Inc. reported the completion of the Flat Lake 11-1H. The well has an SHL at SW 35N-51E (480 FSL/280 FWL) and a BHL of 11,791 feet. Producing from the Bakken formation, the Flat Lake well turned on an IP of 33 BOPD and 525 BWPD.

Week of 2/1 to 2/7

New locations — horizontal wells

In Daniels County, Sagebrush Resources LLC LLC has been approved by the Gasduck 1-84. The well has a SHL at SW 35N-51E (480 FSL/280 FWL) and a BHL of 13,659 feet at NE 27N-51E (1980 FNL/960 FWL). To view the remainder of this article in its entirety please visit: http://bit.ly/2UnMou
### North Dakota Well Operator Transfers/Changes January & February 2013

The information in this chart was compiled by Petroleum News Bakken from the online daily activity reports of the North Dakota Industrial Commission, or NDIC. The operator names in this report are as they appear in State records, even though some of the companies, or their Bakken assets, might have been purchased by other companies. XTO Energy, for example, is now a subsidiary of ExxonMobil.

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<tr>
<th>Number</th>
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<td>Joseph</td>
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<td>Franchuk</td>
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<td>#18637</td>
<td>Mongoose</td>
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left in Sanish,” Brown countered. “And we keep finding additional things to drill in there.”

Five billion barrels of oil

In fact, he added, the Sanish and adjacent Parshall field held an estimated 5 billion barrels of in-place oil, only 10 percent of which can be recovered using current technology.

“So that means there is 90 percent of that target sitting there,” Brown said. “We know where it is. Can we figure out how to get it out of the ground? We’ve got a fairly significant effort going on at Whiting right now to see if some of the smart guys in the back room can figure out how to get some more of this oil.”

He said Whiting is working with a number of “institutions” across the country, including the University of Wyoming, to see whether enhanced oil recovery, such as water flooding, or any other “technique” the company has not yet thought of, can be employed “to go after that huge oil target we have at Sanish.”

Whiting’s down-spacing plan

Moreover, to strengthen production in the Sanish, Whiting is formulating a well down-spacing plan that will be submitted to the North Dakota Industrial Commission for approval, Brown said, noting that it could take year-end for the plan to clear the regulatory process, “drill something” and bring it on line.

“We continue to see production increase in Sanish,” he added. “So we expect to have that continue as we get through 2013. Over the past few years, however, Whiting has been shifting its drilling focus in the Williston Basin to fields located west and southwest of Sanish, including Hidden Bench, Pronghorn, Cassandra, Missouri Breaks and Big Island. Whiting currently runs just six rigs in the Sanish compared to 14 rigs elsewhere in the Williston.

“So the predominance of our drilling has been and will continue to be outside Sanish field,” Brown said. “And what we can show you … are that the wells we are drilling outside of Sanish right now are producing at rates that are exceeding what we’re drilling in Sanish.”

2,500 drilling locations cited

Whiting has identified 2,500 locations to drill in the northern Rockies alone, and drills about 250 of these locations a year, Brown said. Other operations are situated in the Permian Basin, Mid-continent, Gulf

**Continued from page 1**
Whiting looking to boost Niobrara rig count sixfold

Whiting Petroleum Corp. has big plans for its enviable acreage position in Colorado’s Niobrara tight oil play, hoping to eventually boost its rig count there by 600 percent.

Six rigs operating in the Niobrara would be equal to the number of rigs Whiting currently operates in its flagship Sanish field in North Dakota. Sanish provides nearly 40 percent of Whiting’s entire U.S. production.

“We’re very enthused about what we’ve got going out here,” James T. Brown, Whiting’s president and chief operating officer, said Feb. 6 at the Credit Suisse Energy Summit in Vail.

But why is the Denver-based E&P independent willing to commit so many drilling rigs to its largely unexplored and undeveloped Redtail prospect?

For one, Redtail happens to be nearly surrounded by some very hot Noble Energy acreage. Noble recently disclosed that it would be investing more than $1.7 billion or 45 percent of its 2013 capital program in the Niobrara.

In 2013 alone Noble estimates it will drill 50 percent more wells (300 actual wells) than it did in 2012. Estimated production this year is expected to increase by 25 percent to 96,000 barrels of oil equivalent per day. And net resource estimates have dramatically increased to 2.1 billion boe.

Whiting has managed to assemble 105,569 acres (77,608 net acres) in Weld County, located in the northeastern portion of the DJ Basin just outside of Denver. Since the end of the last year’s third quarter alone, the company has added 12,615 acres (10,830 net acres).

Whiting currently has one rig operating in the Niobrara. It began limited drilling about two years ago, and has drilled a total of five wells to test the play’s “concept,” Brown said. The Wild horse 04-0414H well was recently completed in the Niobrara “B” zone and flowed at an impressive 1,170 boe per day.

“We’re drilling horizontal wells across either a 640-acre spacing unit or 960," Brown noted. “We like the 960. It gives you a longer lateral. It appears the reserves are justifying an additional cost to drill that.”

The company also is in the process of acquiring permits for a new gas plant. "We have a small gas plant out here, but it wouldn’t handle the gas we would produce if we get into a full development mode," Brown said, noting that Whiting has filed for an air permit with the state.

“We expect to have that permit sometime in six to nine months, towards third quarter of this year,” he said. “We expect to have the plant on line toward the end of the year.”

Whiting intends to keep the one rig running all of this year, and said it has signed a contract for a second rig to show up mid-year. "We plan to have a third rig out here toward the end of the year,” Brown said. "Our ultimate goal is to have about six rigs running out here.”

see RIG COUNT page 20

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Vertical: $3 MM - $4.5 MM
Horizontal: $5 MM - $7 MM

DRILLING PROGRAM
Two horizontal Wolfcamp wells are waiting on completion. One of these wells is the May 202H which offsets the May 201H.

see RIG COUNT page 20

CALL 1-877-397-1594 FOR A FREE ESTIMATE
In 2012, Statoil added some 735 million boe to its proved reserves, bringing its total proved reserves at the end of 2012 to approximately 5.4 billion boe. The company estimates its capital expenditures for 2013, excluding capital leases and acquisitions, will be approximately $19 billion.

—MIKE ELLERD

continued from page 18

WHITING INVENTORY

Coast and Michigan regions of the United States.

“At our current rate we have about a 10-year inventory sitting in front of us right now,” Brown said. “We feel we have a very strong portfolio of locations to drill in front of us. We plan to be around for awhile.”

In addition to the “misconception” in the investment community that “these guys don’t have anything to drill,” Brown said, there is “the issue we have at Whiting (that) we don’t have enough capital to drill all the things we have.”

He explained:

“So I think we need to mesh those two perceptions of Whiting. If you look at Whiting’s history across the acreage, and I’m going to say even back when we were an acquisition company when we first went public, and then how we acquire land to develop these projects, we’re not somebody that goes out and pays top dollar. So I think if there is any fear that we are going to go out and pay multi-thousand dollars per acre for some huge project just to get some more to drill, that’s not been our history, and I expect that will be what we do going forward.”

Whiting considers $1.8 billion budget

Whiting has yet to release its 2013 capital budget, or its 2012 fourth-quarter and year-end financial results, including reserves and production for 2012 versus 2011, all of which it plans to do Feb. 27.

Whiting’s reported proved reserves as of Dec. 31, 2011, totaled 345.2 million barrels of oil equivalent, which represents a 13.2 percent increase over the 304.9 million boe of proved reserves at year-end 2010. In total, the company replaced 274 percent of its 2011 production of 24.8 million boe.

Company production in 2011 totaled 67,900 boe per day, compared to 64,650 boe per day in 2010. Browning said at the Credit Suisse Energy Summit that 2012 production likely averaged in the “mid-60,000” boe per day, or roughly a 25 percent increase over the prior year.

“Where we are going to allocate those funds is in the $1.8 billion range,” he added. “We are just in the process of shooting the development,” Brown added. “And once we do that we’ll start applying some huge project just to get some more to drill, that’s not been our history, and I expect that will be what we do going forward.”

Rigs may be released

However, with a $1.8 billion budget, Brown said Whiting likely would release “a couple” of rigs from the Williston Basin, in large part because of new rig technologies that allow operators to drill more wells.

“Because of the efficiencies we’re starting to see, we drilled more wells than we thought we were going to drill in 2012,” he said. “We’re starting to drill more wells per year than what we had historically experienced.”

Nonetheless, Should Whiting decide to sell its Posec Field in Oklahoma, a significant chunk of the proceeds would be applied to drilling, Brown said, noting that the company would expect to pocket $800 million—$1 billion from a sale.

“If you took the low range, we probably take half of that or $400 million and look to accelerate drilling in 2013,” he said. “So what we probably would do is keep those rigs running where they are and keep our program going in the Williston Basin.”

Contact Ray Tyson at tyson@petroleumnews.com

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(713) 580-2722 | bross@ofsfund.com

Jerad McMayon, Partner
(713) 580-2708 | jmcmayon@ofsfund.com

continued from page 19

RIG COUNT

For the moment, Whiting plans to develop only what it calls its Phase One Area because that’s the only place where it has 3-D seismic coverage.

“We are just in the process of shooting 3-D seismic across the rest of our acreage,” Brown said. “Our plan is to process it through the next four to six weeks, and then we’ll have that ready to go sort of in the April-May timeframe.”

Contact Ray Tyson at tyson@petroleumnews.com

Whiting also has applied to the state of Colorado for increased drilling density on its acreage. Brown said, noting that because of the great abundance of inplace oil in the Niobrara, “you can drill on as tight of space as you want. You’re never going to run out of oil.”

“But right now what we’ve talked about is in the $1.8 billion range,” he added. “Where we are going to allocate those funds in 2013 is going to look very similar to where they were spent in 2012. The one exception right now is the Permian.”

—RAY TYSON

Contact Ray Tyson at tyson@petroleumnews.com

COURTESY OF OFS FUND
The proceeds from those 22 Dunn County riverbed tracts accounted for slightly more than 67 percent of the total lease auction proceeds. Without those 22 parcels, the average price per acre would have dropped from $899 to $312 per acre.

The price QEP paid for the 22 Dunn County riverbed tracts ranged from $10,500 to $13,000 per acre. The next highest price was $5,700 per acre TDB Resources of Salt Lake City bid for yet another Dunn County riverbed tract consisting of 1.61 acres. The remaining tracts leased for anywhere from $4,600 per acre to a low of $1 per acre.

Proceeds from the Trust Lands lease auction go into permanent and special funds that support education and infrastructure enhancements across the state, said Drew Combs, the director of the Trust Lands’ Minerals Management Division. “The money collected from generous bidding in this lease offering and from all of the royalties produced from state minerals go into permanent and special funds that support education and infrastructure enhancements across the state,” he said.

ND trust lease auction results—high bidders by price per acre (Feb. 5, 2013)

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<td>Paladin Resources Co., Bismarck, N.D.</td>
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<td>Herco, Billings, Mont.</td>
<td>Beaver, Dunn, St.</td>
<td>1,487</td>
<td>921,712.56</td>
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<td>Primogold Corp., Denver, Colo.</td>
<td>Dunn, Stark</td>
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<td>504,975.20</td>
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<td>Black River Oil &amp; Gas Inc., Minn., Minn.</td>
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<td>38</td>
<td>28,794.00</td>
<td>$753.43</td>
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<td>Great Northern Energy LLC, Bismarck, N.D.</td>
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<td>136</td>
<td>20,757.00</td>
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<td>DeRosa Resources Co., Williston, N.D.</td>
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<td>140</td>
<td>17,800.00</td>
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<td>Great Northern Energy Res., Williston, N.D.</td>
<td>Mountrail</td>
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<td>7,269,853.96</td>
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<td>141,811.32</td>
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<td>58,611.17</td>
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<td>H. Kermit Anderson and/or Rebecca Ann Hilton Anderson, Ronan, Mont.</td>
<td>Powell, Lake</td>
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<td>White River Resources, Bismarck, N.D.</td>
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<td>Paladin Resources Inc., Minn., N.D.</td>
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<td>487,087.20</td>
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<td>Bravo West, Williston, N.D.</td>
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<td>Bravo West, Williston, N.D.</td>
<td>Beulah</td>
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<td>Trinity Oil Co., Williston, N.D.</td>
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<td>$12.50</td>
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<td>Trinity Corp., Minn.</td>
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<td>Total Average</td>
<td></td>
<td>7,069</td>
<td>469,285.95</td>
<td>$66.23</td>
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ND trust lease auction results—acres and proceeds by county (Feb. 5, 2013)

<table>
<thead>
<tr>
<th>County</th>
<th>Acres</th>
<th>Total Received</th>
<th>Price per Acre</th>
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<tbody>
<tr>
<td>Bowman</td>
<td>1,250</td>
<td>122,305.80</td>
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<tr>
<td>Burke</td>
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<td>Dunn</td>
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<td>217,257,413.88</td>
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<td>McKenzie</td>
<td>1,487</td>
<td>350,038.00</td>
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<tr>
<td>Mountrail</td>
<td>734</td>
<td>131,327.10</td>
<td>$179.00</td>
</tr>
<tr>
<td>Souris</td>
<td>4,847</td>
<td>330,321.35</td>
<td>$68.02</td>
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<tr>
<td>Stark</td>
<td>795</td>
<td>1,098,840.00</td>
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<tr>
<td>Ward</td>
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<td>164,498.72</td>
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<tr>
<td>Williams</td>
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<td>41,932.00</td>
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<tr>
<td>Total</td>
<td>27,569</td>
<td>2,469,352.89</td>
<td>$89.13</td>
</tr>
</tbody>
</table>

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As organizations go back to the Gulf for exploration and allocation of liability in E&P projects become more vast, the oil and gas industry needs to pay more attention to the quality of their contracts.

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Larson Electronics offers rechargeable LED tower

Larson Electronics said Feb. 11 that it has released an infrared LED light tower designed to provide full portable operation in a compact and powerful design. The WAL-LED3W-4S...

MT Rigmat announces 2X stronger Walking Rigmat

MT Rigmat said Feb. 4 that it now offers the 2X stronger Walking Rigmat for the new walking rigs. These new rigs weigh between 1.5 million and 2 million pounds when loaded with 20,000-plus feet of drill pipe and more than 60 percent of that weight is transferred to the two walking pads on one side of the rig. Operators found that when they walked the rig past the well cellar on soft ground conventional rigs were not strong enough and were bending, causing displaced dirt to crush the cellar side wall and damage the mats, creating unsafe working conditions.

MT Rigmat’s 2X stronger Walking Rigmat is twice as strong as conventional rigs due to the 6x25# beam built in a four-rail design rather than the standard 6x15# beam three-rail rigmat, translating into half the PSF loading to the ground beneath the rigmat and allowing it to bridge twice the distance and weight of a standard three-rail rigmat. The rigmat dimensions remain the same as standard dimension at 8 feet by 40 feet, allowing for the rigmat to interchange with standard rigs on location. Each 2X Walking Rigmat weighs 9,500 pounds.

MT Rigmat specializes in the manufacturing of oilfield rigmats and oilfield camp mats, also providing custom fabricated rigmats for any application and is the local rigmat solution for the Bakken field in Montana and North Dakota, and oil industry in Wyoming. For more information visit www.mtrigmat.com.

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saying, if it ain’t broke, don’t fix it.” SB 295 proposes a phased reduction in the tax rate for certain air and water pollution control equipment down to 1 percent over a four-year period. Historically, Galt says, pollution control equipment, as a class, has always been taxed at a lower rate for business property tax purposes. However, as business property taxes have declined over the years, Galt says, now the rates are about the same. In addition, he says, pollution control equipment is generally mandated by federal or state law for the purpose of cleaning air and water and does nothing to increase production or refining capacity. The MPA doesn’t think that such equipment should be taxed at the same rate as other equipment. The House Taxation Committee has not yet set a hearing date for the bill.

A similar bill is SB 240, introduced by Sen. Bruce Tutvedt of Kalispell. That bill would actually exempt all taxation on pollution control equipment installed since Jan. 1, 2012, and has not yet hit the tax rolls. The MPA supports this bill as well, and Galt thinks the industrial community is concerned about impacts of pending environmental regulations that will require more pollution control equipment. Reducing the pollution control equipment tax would lessen those impacts, albeit, he says, ever so slightly. SB 240 was heard in the Senate Taxation committee on Feb-6, but the committee has not yet voted on the bill.

Leasing water rights

Another bill that the MPA sees as important is HB 37 introduced by Rep. Bill McChesney of Miles City on behalf of the Montana Department of Natural Resources and Conservation, and provides for temporary leasing of water rights. Owners of water rights can lease their rights under current law, but that process is lengthy and can be expensive. Under the proposed legislation, that process would be expedited. However, to qualify for the temporary leasing, the water right has to have been used in the last 10 years, the right may be leased only during the period of diversion for the appropriation right, the right may not be leased more than two years during any consecutive 10-year period, and the volume of water lease may not exceed 180 acre-feet per year.

The oil and gas industry, Galt says, buys water from people who have the water for sale, and this bill is meant to expedite the process for an agricultural user who might want to sell that water. “It allows flexibility for an agricultural user who may have a year they don’t want to irrigate for example and have the option to sell that water for a year but go back and use the water the next year,” Galt says. “This is an important bill to enhance the availability of water in a state where water has always been a contentious issue.” The House Natural Resources Committee passed HB 37 on Jan. 18. The full House passed the bill on second and third readings and the bill was sent to the Senate on Feb 4.

Relief to oil-impacted counties

Getting infrastructure relief to oil-impacted counties is another issue the MPA feels is important. HB 218, introduced by Rep. Duane Aronson of Colstrip is important, Galt says, because it creates an impact fund to provide financial assistance to counties that are impacted by oil and gas development. This bill would take a share of federal mineral royalties that go into the gener-
Tesoro weighing rail, barges

In a Feb. 7 conference call, Greg Goff, president and chief executive officer of Tesoro, said his company is weighing the possibility of using rail and barges to improve margins for both heavy and light crudes.

Currently Tesoro uses rail to carry 5,000 barrels per day of discounted light sweet Bakken crude to its 160,000 bpd refinery at Martinez, Calif., and 40,000 bpd to its 120,000 bpd refinery in Anacortes, Wash., while its 58,000 bpd Mandan, N.D., refinery runs only Bakken crude.

The final quarter of 2012 was the first time that rail deliveries were made to Anacortes, with average volumes of 4,000 bpd during the period, which are now at 50,000 bpd.

Dan Romasko, Tesoro’s executive vice president of operations, said the flow of Bakken crude has backed out Alaska North Slope and foreign crudes at Anacortes.

Goff said his company now runs only a limited quantity of ANS in its portfolio.

No details on barges

Tesoro officials made fleeting references to the use of barges to access the Southern California refining market, without offering any details beyond Goff’s comment that the use of barges from the Pacific Northwest is as attractive as rail.

He said Tesoro has a “good appetite” for Midcontinent crude at the Martinez refinery and could add the 266,000 bpd Carson, Calif., refinery when than is combined with the Wilmington, Calif., refinery being acquired for $2.6 billion from BP.

Tesoro reported a 6.5 percent year-over-year increase to 604,000 bpd in its refining throughput, with refinery utilization at 87 percent, its highest in five years.

The company refined 408,000 bpd of light crude in the latest quarter, up 23,000 bpd from the third quarter and posted net income of $27 million compared with a net loss of $124 million a year earlier.

Contact Gary Park through publiner@petroleumnews.com

ALBERTA UPGRADER

“Is not a question for today, it is about our view of the future,” he said.

“What do we think those margins are going to be five, 10 or 15 years out?”

On Feb. 6, he was even more direct in a conference call with analysts and, without naming names, he pointed the finger at the Bakken.

“Everybody is surprised by the speed at which Mid-Continent (the Bakken) crude came into production,” Williams said, projecting that beyond the next five years there could be too much light sweet crude available in North America and too little heavy crude, resulting in light crude getting exported from the continent.

For now, Suncor has taken a write down of C$1.5 billion on Voyageur, disclosing that the partners are close to completing a review of their options, “including the implications of cancellation or indefinite deferral.”

Williams said the pivotal decision expected before March 31 will determine whether to “go ahead with the project as is,” or call a halt, adding “there is no easy way to go to a half- or quarter-sized upgrader.”

However, he insisted “we’re looking at all options going forward,” and was adamant that the partnership formed with Total two years ago remains strong.

Rebalancing required

For Suncor, a decision to abandon Voyageur will involve a rebalancing of the company’s portfolio of oil sands mining and in-situ production in the province of Alberta.

If the upgrader is shelved, Suncor would have “even more capital available to develop its 12.5 billion barrels of in-situ resources, including expansion of its Firebag and MacKay River operations and accelerating the schedules for its Lewis and Meadow Creek projects,” Williams said.

Once the Voyageur decision is made “we will talk in more detail about those projects,” he said.

When Suncor took over Petro-Canada in 2009 it stopped work on a project that was about 15 percent built. The investment so far is estimated at about C$3.5 billion.

The advances in drilling technology, which have opened up the Bakken (in North Dakota and Saskatchewan), along with other unconventional plays in Western Canada and the United States, have clogged pipelines and deepened discounts for Western Canadian light and heavy crude slates.

Suncor reported that its oil sands volumes of 378,700 barrels per day fetched an average C$77.37 per barrel in the final quarter of 2012, compared with C$59.02 a year earlier.

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