Petroleum news
BAKKEN

page 3 David O'Connell stresses importance of people over policy

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Oil tax dollars at work

VERN WHITTEN PHOTOGRAPHY

Construction continued in December on the first phase of a new wastewater treatment facility for Williston, North Dakota. The first phase, expected to be competed in September, will have capacity for a population of 40,000, and components have been installed to up the capacity for a population of 60,000. The site has expansion potential for a population of 120,000.

ND's small tax trigger kicks in

RYAN RAUSCHENBERGER

As of Feb. 1, oil operators in North Dakota can take advantage of tax savings because oil prices stayed low enough in January to trigger an incentive.

The oil extraction tax drops from 6.5 percent to 2 percent for any wells drilled during the months the incentive is active. The lower tax applies to wells completed between now until June 30, 2015 unless it is triggered off by rising oil prices. The first 75,000 barrels of oil produced or the first $4.5 million of gross value during the first 18 months after completion of the well are eligible for

see **TAX TRIGGER** page 15

Continental output up 28%

MIKE ELLERD

HAROLD HAMM

Although Continental Resources won't release its fourth quarter results until Feb. 24, the company did issue a press release on Feb. 3 announcing that it estimates its overall 2014 production totaled 63.4 million barrels of oil equivalent, up 28 percent over total 2013 production, 70 percent of which was crude oil. While that production puts the company's daily average output at approximately 174,000 boe per day for the year, Continental also said that in December it reached a produc-

see **CONTINENTAL OUTPUT** page 13

EPA introduces new XL obstacle

JIM PRENTICE

Alberta Premier Jim Prentice hoped he could succeed where his two predecessors had failed by injecting a new voice of reason to the Keystone XL debate in the United States.

Instead, his four-day visit with lawmakers, State Department officials working on the XL file, business leaders and investors in Washington, D.C., and New York was overshadowed by a report from the U.S. Environmental Protection Agency.

EPA said the pipeline would "significantly" increase greenhouse gas emissions by relying on Alberta oil sands

see **NEW XL OBSTACLE** page 14

GOVERNMENT

Funding changes

North Dakota considers bill to put more money into oil impacted areas

By MAXINE HERR
For Petroleum News Bakken

What has been referred to as the "formula bill" working its way through the current North Dakota legislative session, House Bill 1176 would give counties impacted by oil development a larger share of the gross production tax revenues.

KEITH KEMPENICH

The state currently receives a 5 percent gross oil and gas production tax. Four-fifths of that, or 80 percent, is divided among political subdivisions in oil and gas counties. HB 1176's biggest adjustment — the change western North Dakota is pleading for — is for counties generating more than $5 million of oil and gas production revenue to receive 60 percent of any earnings above that. Under current law, the counties only receive 25 percent with the other 75 percent going to the state.

Rep. Keith Kempenich is the prime sponsor on the formula bill and presented it to the House Appropriations Committee Jan. 29. The bill would provide western North Dakota with the resources to deal with oil development impacts. House Minority Leader Kenton Onstad has said the for-

see **FUNDING CHANGES** page 15

LAND & LEASING

Not prime real estate

Despite core-county tracts, NDTL lease auction hits eight-year low average

By MIKE ELLERD
Petroleum News Bakken

Despite most of the 17,878 acres leased in the North Dakota Department of Trust Lands Feb. 3 oil and gas lease auction being within the boundaries of the Bakken petroleum system, the average price per acre was the lowest over the last eight years at just $64.21 and well below the eight-year average of $907 per acre.

Nearly 40 percent of the acreage offered in the auction is in Dunn, McKenzie, Mountrail and Williams counties, but those acres are in outlying regions away from the deep, thermally mature Bakken core (see map).

Minerals Management Division Director Drew Combs said the results of the auction were "nothing too surprising" given the locations of the tracts within the Bakken petroleum system.

Minerals Management Division Director Drew Combs said the results of the auction were "nothing too surprising" given the locations of the tracts within the Bakken petroleum system.

But another factor possibly affecting some of the tracts, aside from the current price of crude oil,

see **NDTL AUCTION** page 16

COMPANY UPDATE

Stepping back in 2015

In addition to delaying Fidelity sale, MDU puts second refinery plans on hold

By MAXINE HERR
For Petroleum News Bakken

MDU Resources Group is in no hurry to break ground on its second refinery in North Dakota.

In a Feb. 3 conference call discussing 2014 fourth quarter earnings and a 2015 outlook, President and CEO David Goodin said capital expenditures associated with a potential second diesel-topping refinery have been delayed. Its first refinery built near Dickinson, a joint project with Calumet Specialty Products Partners, is scheduled to be operational in June, six months later than expected due to weather-related delays. The company has proposed to build a similar 20,000 barrel per day refinery near Minot but a decision is not likely to be made until 2016.

DAVID GOODIN

"We've identified a potential site and have started some of the preliminary permitting work," Goodin said.

MDU updated its 2015 capital expenditures forecast to $692 million, reflecting the delay of a sale of its Fidelity Exploration and Production Co. and a shift of construction dollars, including pushing plans to build a second refinery into 2016.

"Our focus today is to get the refinery up and

see **MDU PLANS** page 15

contents

Petroleum News Bakken

GOVERNMENT

O'Connell: focus on people not policy

Long-time North Dakota senator cautious about the state's oil boom and stresses need for operators to operate to maintain jobs

By MAXINE HERR

For Petroleum News Bakken

State Democratic Sen. David O'Connell began his service in the North Dakota Legislature in 1983 as a member of the House and was elected to the Senate in 1989. The retired farmer from Lansford, a community just 25 miles from the Canadian border in Bottineau County, has also worked as an operating engineer. He served four terms as Senate minority leader from 2003 to 2010. O'Connell spoke with Petroleum News Bakken about his unique perspective on the state's future.

Petroleum News Bakken: You've seen oil development boom and bust in North Dakota over the years, but many challenge the idea of a Bakken bust. What do you think about that?

O'Connell: This is the third boom that I've been involved with and I don't go with that theory at all. I've been in two busts before. I'm leery we're going to have another bust and this is going to be worse than any we've seen before because we have so many people — I think 126 employees to a rig — and when you start laying off, that's a lot of people. The rent I'm being told is $2,500 to $3,000. You don't pay that kind of rent on unemployment.

Dickinson went through a bust and the state had to come in and bail them out because they built all these homes with specials to pay. Maybe I'm too conservative, but I've been real leery about this one. Everybody says it's going to go 20, maybe 30, years; I don't buy into that.

Petroleum News Bakken: You've sponsored a bill that would eliminate all oil and gas taxes for 18 months for oil wells drilled and completed outside of the Bakken. Is this your way of extending some oil activity?

O'Connell: Yes, right now if you've got a quarter of land and you were looking at drilling — but now you're not going to because of price — if that would put it back into production, let's keep those rigs going and keep those people employed.

Petroleum News Bakken: You also have your name on a bill that would extend the extraction tax exemption trigger deadline another four years. How critical is that bill?

O'Connell: It's jobs again. I'm looking more at the people involved and anything to keep the good operators going and in business. The poor ones are pretty much gone now, or the ones that were on a shoestring budget will be gone in six months. I've heard from oil people and some of them have told the crews to go home for six months and then we'll tell you if you have a job or not. That doesn't help North Dakota at all. That's what I'm worried about — getting that many people unemployed.

Petroleum News Bakken: As someone from Bottineau County where saltwater spills from the 1960s still plague farmland, what kind of legislation would you like to see?

O'Connell: There should be a pool of money for experimental purposes at the university to determine what we can do to help. We just need more money in the health department's budget I think to help the accidents. The trouble is on the older wells — they've probably been sold five or six times, so who do you go after? Once a bond is gone, what do you do? I did sponsor a bill for emergency managers to have the right to go on the sites and inspect what kinds of hazards could possibly be there. It would give them the same authority law enforcement has to assess what goes on. I think that would give people more comfort to know that a local person is there making contact. If he had the authority to go on any place at any time, that would give my constituents a heck of a good feeling because they don't have to call the state and maybe its two days later before someone could get there.

DAVID O'CONNELL

Petroleum News Bakken: You have also introduced a few bills as efforts to improve reclamation in the state. One would require a bond to not be released for three growing seasons following reclamation to better determine damages. The second gives $3 million per biennium to fund reclamation of abandoned oil facilities prior to 1983, and another would create a pilot program under the Agriculture Commissioner to ensure pipeline reclamation issues are addressed. Can you talk about your involvement with these bills?

O'Connell: I don't want to be anti-oil by any means; I don't want to run them out of the state. But sometimes when constituents ask you to sponsor bills I tell them I'll sponsor it for you — that's my job as your senator — but you'll do the testifying on it. I think every constituent has a right to be heard and even if you're not 100 percent on board with some of them, it's still your job to get it out and go from there. But with saltwater spills, I'll go back to my own experience. I farm land that had an oil well on it in the '60s when they used the open pits, and they didn't pump the water out. They just pushed the pit in when they abandoned the well. It's still black. You can't even grow weeds on it.

see O'CONNELL Q&A page 13

● GOVERNMENT

ND gets revised budget forecast

Updated revenue projections give North Dakota leaders a better tool to gauge spending as oil prices fall below original estimates

By **MAXINE HERR**
For Petroleum News Bakken

Though North Dakota legislators will receive a thoroughly updated budget forecast from the state's Office of Management and Budget in March, on Jan. 29 Republican majority leaders unveiled a revised forecast to the one released in December which had assumed an oil price per barrel in the mid-$70 range.

Senate Majority Leader Rich Wardner and House Majority Leader Al Carlson announced that the updated forecast assumes oil at $42 a barrel for the rest of the current 2013-15 biennium, rising to $45 to $65 a barrel during the 2015-17 biennium, with oil production remaining constant at 1.2 million barrels per day. The adjustment slashes $4 billion from previously expected revenue but it still leaves $4.2 billion in tax dollars, down only $1.8 billion from the current biennium. The leaders said the revised projections allow the Legislature to set funding priorities.

"This is a correction, not a bust," Wardner said. "We are well positioned to deal with the low price of oil. Even though we'd like to not have this lower price per barrel of oil, we think we are in a position to have a soft landing."

The new forecast was generated from collaboration with the state tax commissioner's office, the Department of

see **REVISED FORECAST** *page 13*

MAXINE HERR

Sen. Rich Wardner and Rep. Al Carlson present revised revenue forecast based on lower oil price

● MOVING HYDROCARBONS

Low crude prices question rail costs

With the cost of shipping a barrel of crude via rail approaching US$22 per barrel, shippers and producers reexamine economics

By **GARY PARK**
For Petroleum News Bakken

With the cost of hauling crude by train now nudging US$22 a barrel for some destinations, there are rumblings of concern over how much longer shippers can afford to ride the rails.

Although there is no word yet of producers taking shut-in actions as a result of these costs, their financial returns are likely "very small," suggested Greg Stringham, vice president of markets with the Canadian Association of Petroleum Producers.

But if rail users can cover their operating costs, they have probably decided for now to continue producing, he told the Globe and Mail.

FirstEnergy Capital analyst Steven Paget said it is difficult to know which shippers and producers are making money using rail, but those ranks "must be tight," prompting the rail users to more closely examine their costs.

However, he said that the number of new terminals due to start service this year will likely see rail volumes rise.

Valero Energy, a leading refiner in Texas and Quebec, said in late January that it is barely breaking even on crude-by-rail volumes delivered to the Gulf Coast compared with tanker shipments from Latin America.

Against that backdrop, CAPP is sticking to its aggressive mid-2014 forecast of an increase in crude-by-rail shipments to 700,000 barrels per day from about 200,000 bpd today, mostly driven by the completion of oil sands projects and wells drilled last year in the Saskatchewan Bakken and Western Canada's other resource plays that are scheduled to start producing.

Valero Energy, a leading refiner in Texas and Quebec, said in late January that it is barely breaking even on crude-by-rail volumes delivered to the Gulf Coast compared with tanker shipments from Latin America.

Contrary outlooks

But the current wave of big cuts to capital spending programs that is expected to eventually act as a drag on production numbers, has caused Canadian Pacific Railway to slash its forecast volumes for 2015 to 140,000 tanker loads from 200,000.

CP Rail's major rival, Canadian National Railway, is taking a contrary view, projecting an increase of 35 percent in carloads of crude oil and fracturing sand this year.

Chief Marketing Officer Jean-Jacques Ruest said shipments of energy related

see **RAIL COSTS** *page 13*

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● COMPANY UPDATE

Phillips 66 Partners reports solid 4Q

Transportation and midstream earnings and volumes increase over third quarter as JVs for new Bakken infrastructure move forward

By MIKE ELLERD

Petroleum News Bakken

Phillips 66 Partners, which previously announced joint ventures with Paradigm Energy Partners to develop midstream assets in the Bakken, reported a strong fourth quarter with revenues, earnings and volumes all up from the previous quarter.

The transportation and midstream master limited partnership, which was formed in 2013 by Houston-based Phillips 66, reported a combined crude oil and refined products pipeline throughput and storage volume of 727,000 barrels per day in the fourth quarter, up 5.5 percent from 686,000 bpd in the third quarter. Crude oil and refined products storage was 951,000 bpd in the fourth quarter, up 2.6 from 927,000 bpd in the third quarter. Pipeline throughput and storage was 39.6 percent crude oil in the fourth quarter, while terminaling throughput and storage volume was 55.98 percent crude.

The partnership's pipeline revenue averaged 52 cents per barrel in the fourth quarter and the terminal and storage revenue averaged 34 cents per barrel. Those revenues represent 8.3 and 17.3 percent increases over the third quarter.

For the quarter, total revenues were up 17 percent to $64.6 million, net income was up 21 percent to 36.3 million, and adjusted earnings were up 21 percent to $36.2 million.

Recent North Dakota investments

As previously reported by Petroleum News Bakken, Phillips 66 Partners and Paradigm announced in November joint venture agreements on midstream development projects in the Bakken, and on Jan. 21, Phillips 66 announced those agreements were complete. Under one of the agreements, Phillips 66 Partners holds 70 percent ownership interest in a rail terminal the JV is developing at Palermo in northeast Mountrail County. The terminal is being built on a 710-acre site and will have an initial capacity of 100,000 bpd with capability of expanding to 200,000 bpd and will be served by BNSF railway. The terminal is being built and will be operated by Phillips 66 Partners.

Under the other agreement, the JV holds an 88 percent interest in the Sacagawea pipeline with Grey Wolf Midstream owning the remaining 12 percent. The 50-50 JV gives Phillips 66 Partners a 44 percent ownership interest in the pipeline, which is a 76-mile crude oil gathering system designed to collect crude from various points in the Johnsons Corner and Keene areas of northeast McKenzie County to the Palermo terminal as well as other export terminals at nearby Stanley. Paradigm is constructing the pipeline and Phillips 66 Partners will be the operator.

Phillips 66 Partners is investing approximately $160 million in the Bakken projects, which are expected to be operational in the fourth quarter 2015.

Other midstream investments

In October, Phillips 66 Partners announced an agreement with parent company Phillips 66 in which the partnership was acquiring two rail unloading facilities from Phillips 66, one at the Bayway refinery in New Jersey and the other at the Ferndale refinery in Washington state. The partnership also acquired the parent company connector pipelines under the Houston ship channel tying a Phillips 66 terminal to a Kinder Morgan terminal at Pasadena, Texas.

In 2014, parent company Phillips 66 received 1,200 rail tank cars with expectations of having 3,700 cars in its fleet in service in early 2015. Also as previously reported by Petroleum News Bakken, Phillips 66 entered into a JV agreement with Energy Transfer Partners in October giving Phillips 66 a 25 percent ownership interest in Energy Transfer's Dakota Access pipeline planned to run from the Bakken to Patoka, Illinois, and the Energy Transfer Crude Oil pipeline to run from Patoka to the Gulf Coast.

In early December, Phillips 66 announced an overall 2015 capital expenditure budget of $4.6 billion for its midstream, chemicals, refining and marketing segments. Bakken investments are included in that total capex. ●

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● COMPANY UPDATE

Oxy plans no 2015 Bakken development

With a Permian and Middle East focus, Occidental Petroleum eliminates spending in 'subpar' assets including the Williston Basin

By MIKE ELLERD

Petroleum News Bakken

As with virtually every other operator in the Williston Basin — as well as North America and the rest of the world for that matter — Occidental Petroleum is cutting capital expenditures in 2015. The $5.8 billion 2015 capex is just two-thirds of Occidentals 2014 spend of $8.7 billion.

In addition — and also following a current industry trend — Occidental is focusing its 2015 capex on high-return core assets while minimizing development of assets with "subpar returns." Those assets are the company's Williston Basin holdings along with an oil sands project in Alberta, a project in Bahrain and domestic gas properties. The focus of Occidental's 2015 capex will be its U.S. Permian Basin assets and other assets in the Middle East.

"It makes little sense for us to push production so as to sell our oil at $50 or less," Occidental's Chief Executive Officer Steve Chazen said in a Jan. 29 conference call. "We have virtually eliminated our capital spending in the Williston Basin, on domestic gas properties, in the Bahrain and Joslyn oil sand projects as these have unacceptable returns in the current price environment."

Furthermore, Occidental reduced the carrying value of the subpar assets resulting in an after-tax charge of $5.1 billion. "As a result of a thorough portfolio review, we have reduced the carrying value of the assets in the areas where we're minimizing development activity," Chazen said. "Our policy has been and will continue to be to write-down assets to approximately fair market value when we believe that the impairment is other than temporary."

Occidental, which operates as Oxy USA in the U.S., first announced it was considering selling or trading its 330,000-plus net Williston Basin acres in October 2013. Most of those acres are concentrated in south-central and west-central Dunn County with a smaller acreage block in southeast Burke County. Little was mentioned of the potential divestiture until May 2014 when Chazen said the cash market was not strong enough for the sale of the assets and that Oxy had restarted development, looking to "modestly" grow the assets over a one to two year period. Then in October 2014 Bloomberg reported that Oxy was working with an investment bank to sell its Williston Basin assets for as much as $3 billion, but nothing new on that front has since been reported.

STEVE CHAZEN

In November 2014, Oxy USA ranked as North Dakota's 17th largest Bakken oil producer averaging 16,287 barrels per day from operated, non-confidential wells according to the latest production data made available by the state's Department of Mineral Resources.

Negotiating down service costs

Not only is Occidental following the industry trend of cutting its spending, but like many other Bakken operators, it is calling on and negotiating with its service companies for a reduction in service costs.

Chazen told analysts that the current service company cost structure "is more reflective of a $100 oil price environment rather than the $50 environment we have today." While service companies have "offered modest price reductions," those reductions "still do not reflect the current reality," Chazen said. "We're focused on reducing our costs, which include renegotiating our supplier contracts that are not reflective of weaker oil prices."

"It's way too early to be talking about acquisitions. I think there is still a lot of whistling in the graveyard going on." —Occidental President and CEO Steve Chazen

'Whistling in the graveyard'

With crude oil prices half what they were six months ago, industry analysts are watching closely for possible mergers and acquisitions, and in the Jan. 29 conference call, Chazen was asked if Occidental was either up for sale or looking to buy.

On selling the company, Chazen said the industry is currently in a cash flow challenge and that selling Occidental is probably not a likely prospect. He went as far as to say that he even looked at Chevron and "it looks like they don't have any free cash."

And on acquisitions, Chazen made equally clear his point. "It's way too early to be talking about acquisitions. I think there is still a lot of whistling in the graveyard going on."

A few fourth quarter metrics

In the fourth quarter, Occidental completed the spinoff of its California resources into a separate company along with the divestiture of its interests in the BridgeTex pipeline to Plains All American, which left a year-end cash balance of $7.8 billion and a debt-to-capitalization ratio of 16 percent. Earlier in 2014 Oxy sold its assets in the Hugoton field in Oklahoma.

With those divestitures considered, Occidental's overall production averaged 616,000 barrels of oil equivalent per day, up 21,000 over the third quarter and 41,000 boepd over the fourth quarter 2013. Domestic production was up 11 percent, led by the company's Permian assets.

Occidental's worldwide crude price in the fourth quarter was $71.58 compared to $94.68 in the third quarter and $97.46 in the fourth quarter 2013. The company's domestic realized crude oil price was $66.46 in the fourth quarter, down from $91.98 in the fourth quarter 2013. ●

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● PEOPLE TALK

Leadership transitions at Fidelity, SM

O'Bryan adds CEO to title at Fidelity as Wells retires; Best retires from SM Energy; board names Ottoson president and CEO

By KAY CASHMAN
Petroleum News Bakken

Pat O'Bryan, president of Fidelity Exploration & Production Co., will add a title to his name on March 1 when he takes over from J. Kent Wells as chief executive officer of the company.

Fidelity is the exploration and production arm of $6.5 billion market cap MDU Resources Group Inc.

Wells previously said he will retire on Feb. 28 from his positions as Fidelity CEO and vice chairman.

"We appreciate the job Kent has done leading Fidelity's transition from a gas-centric business to a balanced production portfolio," said David L. Goodin, MDU president and CEO. "As MDU's vice chairman, Kent has played a key role in our corporate strategy and succession planning processes and we are well positioned to have a smooth transition in direction and leadership at Fidelity."

"For the past few years Pat has worked closely with me in developing and executing on our strategy and has the talent and knowledge to lead the company going forward, especially during this difficult oil price environment," said Wells, who joined Fidelity in May 2011.

"Pat is well prepared to lead Fidelity as president and CEO," Goodin said. "His leadership and deep industry experience will be very important during the pause in our plans to market the business, and will contribute to the successful marketing of

People Talk

Fidelity when the timing is appropriate."

MDU said in November it planned to put Fidelity on the market, but has delayed that effort in light of the recent volatility of oil prices.

O'Bryan became president of Fidelity in July. He joined the company in 2011 as vice president of drilling and completions, with 26 years of experience in the oil and gas business, including executive and asset general management, drilling engineering and technology management, production and reservoir engineering supervision.

Prior to Fidelity, O'Bryan held vice president positions in drilling and completions and production at BP. He has a Ph.D. in petroleum engineering from Louisiana State University.

Fidelity is an exploration and production company focused in the Rocky Mountain region, including North Dakota, Wyoming, Montana and Utah, and in the Midcontinent/Gulf states.

Ottoson appointed chief executive officer

SM Energy Co. said Feb. 2 that Anthony J. Best has retired and the company's board of directors has appointed Javan (Jay) D. Ottoson in his place as president and chief executive officer of the Denver-based company, effective Feb.1.

Best will complete his current term as a


PAT O'BRYAN


JAVAN OTTOSON

member of the board, and does not plan to stand for re-election in 2015 at the SM's 2015 annual meeting of stockholders.

"On behalf of SM Energy's board of directors, I would like to thank Tony for his leadership of the company over the last eight years and wish him the very best in retirement. Two of Tony's many accomplishments were to work effectively with the board to identify and develop an internal successor for the CEO position and to seamlessly transition the leadership of the company to Jay. The board believes that Jay is well prepared for his new role and that his experience, understanding of the company, passion for excellence and commitment to value creation make him the right choice to lead SM going forward," said Bill Sullivan, chairman of the board.

Ottoson joined SM in late 2006 as executive vice president and chief operating officer. He was elected to the board of directors in 2014.

Immediately prior to joining the company Ottoson was senior vice president of drilling and engineering with Energy Partners Ltd. in New Orleans. He has 28 years of experience in the energy industry, having started his career working for ARCO as a summer intern in the company's Houston refinery.

After his graduation from Colorado School of Mines with a Bachelor of Science degree in chemical and petroleum refining engineering in 1980, he joined ARCO Coal in Denver as a synfuels process development engineer.

Ottoson moved to Alaska with ARCO in 1982 and spent the next 16 years working in jobs with progressively more responsibility in the company's oil and gas operations. Some of the positions he held were operations superintendent at Prudhoe Bay, vice president of operations and development in the Permian Basin, and commercial director for ARCO's subsidiary operating in the U.K. North Sea.

In 1998, he was appointed president and resident manager of ARCO China Inc. in Beijing, PRC. At that time, ARCO was the largest foreign producer of natural gas in China and was building additional businesses in LPG importation, downstream marketing and power generation.

Ottoson grew up on a farm outside of Eaton, Colorado.

SM is an independent energy company engaged in the acquisition, exploration, development, and production of crude oil, natural gas, and natural gas liquids in onshore North America. ●

Contact Kay Cashman at publisher@petroleumnews.com

Petroleum News Bakken BAKKEN Stats

● BAKKEN COMMENTARY

Statoil tops IP, another Pronghorn well on list

MIKE ELLERD

Petroleum News Bakken

For the third time in 2015 Statoil has topped the week's IP list. This week it's a Three Forks well in the Alger field in Mountrail County that yielded 2,400 barrels in the first 24 hours on production. Statoil also had the No. 8 IP from a Three Forks well in the Stony Creek field in Williams County at 1,670 barrels (see map this page and chart on page 10).

Denver-based PetroGulf Corp. had the second highest IP for the week at 2,106 barrels from a middle Bakken well in the Antelope field in Mountrail County. A PetroGulf Three Forks on the same pad came in No. 10 at 1,572 barrels.

An Oasis Petroleum middle Bakken well in the Missouri Ridge field in Williams County was No. 3 at 2,070 barrels, and a Marathon Oil Three Forks well in the Van Hook field in Mountrail County was No. 4 at 2,004 barrels.

For the second week in a row, a Whiting well completed in the Pronghorn Sand formation in northwest Stark County made the IP list. Last week it was a Pronghorn well in the Zenith field at No. 10 with 1,443 barrels, and this week it is a Pronghorn well in the Park field in the No. 5 spot at 1,869 barrels. Whiting also had the No. 9 IP at 1,617 barrels from a middle Bakken well in the Nameless field in McKenzie County.

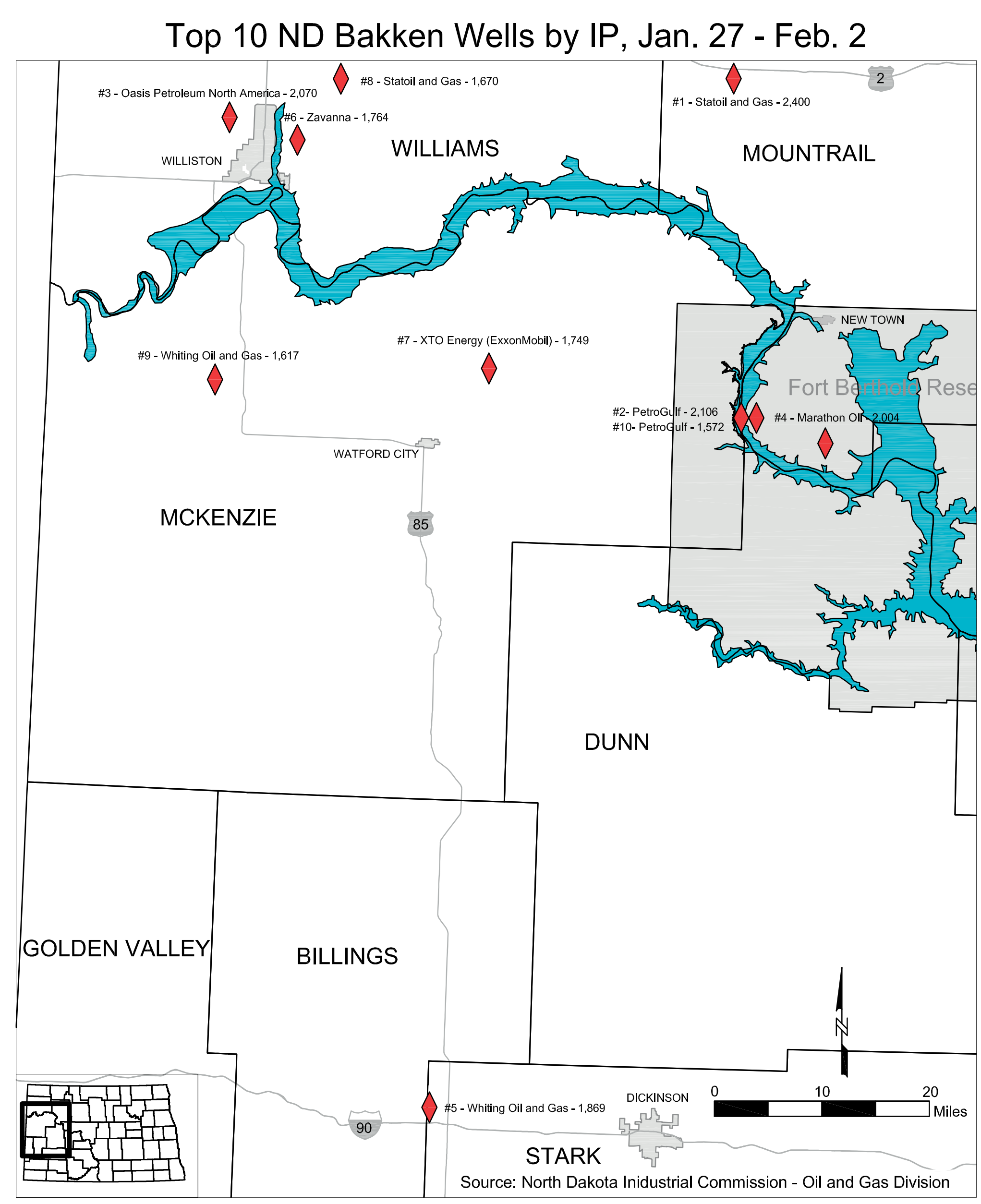
Zavanna was No. 6 at 1,869 barrels from a Three Forks well in the Williston field in Williams County, and XTO was No. 7 at 1,749 barrels from Three Forks well in the Siverston field in McKenzie County.

ND permitting

Sixty North Dakota well permits were issued between Jan. 27 and Feb. 2, down from 67 in the previous week but up from 56 issued two weeks ago (see pages 9 and 10). At 28, nearly half of the permits are in McKenzie County with the remaining permits issued across six other northwestern counties. QEP Energy received the most permits at 11, all in McKenzie County, followed by EOG Resources with nine permits in Mountrail County and Newfield Production with seven, all in McKenzie County. See chart on page 10 for other operators receiving permits.

ND well transfers

In July 2014, Fidelity Exploration and Production announced it was selling approximately 4,363 net acres in Mountrail County to Houston-based Lime Rock Resources, and on Jan. 7 Fidelity officially transferred 51 wells in the Alger and Stanley fields to Lime Rock. Details of those wells along with other transfers between Dec. 13 and Feb. 2 are available at http://bit.ly/16zisHM.



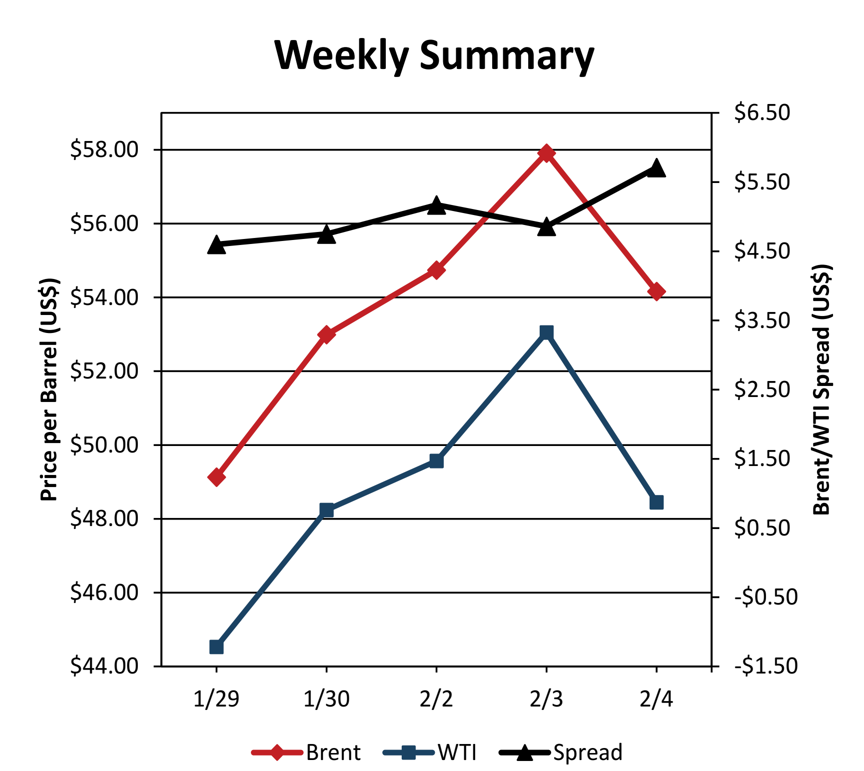
BIGHORN ENGINEERING

Petroleum News Bakken — Brent and WTI Prices & Spread

Jan. 29–Feb. 4, 2015

Delivery Month: March

	1/29	1/30	2/2	2/3	2/4	Change
Brent	$49.13	$52.99	$54.74	$57.91	$54.16	$5.03
WTI	$44.53	$48.24	$49.57	$53.05	$48.45	$3.92
Spread	$4.60	$4.75	$5.17	$4.86	$5.71	$1.11



Price source: CME Group

Petroleum News Bakken — Bakken producers' stock prices

Closing prices as of Feb. 4 along with those from previous Wednesday

Company	Exchange	Symbol	Closing price	Previous Wed.
Abraxas Petroleum Corporation	NASDAQ	AXAS	$3.24	$2.91
American Eagle Energy Corporation	NYSE	AMZG	$0.63	$0.46
Arsenal Energy USA, Inc.	TSE	AEI	$3.74	$2.94
Baytex Energy USA Ltd.	NYSE	BTE	$18.20	$14.96
Burlington Resources Co., LP (ConocoPhillips)	NYSE	COP	$65.87	$62.58
Condor Petroleum	TSE	CPI	$0.17	$0.15
Continental Resources, Inc.	NYSE	CLR	$44.26	$42.37
Crescent Point Energy US Corporation	TSE	CPG	$31.70	$29.05
Denbury Onshore, LLC	NYSE	DNR	$8.19	$6.47
Emerald Oil, Inc.	NYSEMKT	EOX	$1.04	$0.77
Enerplus Resources USA Corporation	NYSE	ERF	$10.68	$9.23
EOG Resources, Inc.	NYSE	EOG	$95.19	$88.10
Fidelity Exploration & Production (MDU)	NYSE	MDU	$22.03	$22.65
Halcon Resources	NYSE	HK	$1.76	$1.37
Hess Corporation	NYSE	HES	$72.01	$66.02
Legacy Reserves Operating LP	NASDAQ	LGCY	$11.15	$10.16
Marathon Oil Company	NYSE	MRO	$27.98	$25.55
Mountain Divide, LLC (Mountainview Energy)	CVE	MVW.V	$0.08	$0.09
Newfield Production Company	NYSE	NFX	$30.99	$27.43
Northern Oil and Gas	NYSE	NOG	$7.71	$6.19
Oasis Petroleum North America	NYSE	OAS	$17.21	$12.56
Oxy USA, Inc. (Occidental Petroleum)	NYSE	OXY	$80.85	$76.50
PetroShale Inc.	CVE	PSH	$1.16	$1.18
QEP Energy Company	YSE	QEP	$21.20	$19.54
Samson Resources Company (KKR & Co.)	NYSE	KKR	$24.27	$24.39
SM Energy Company	NYSE	SM	$48.36	$34.75
Statoil Oil and Gas LP	NYSE	STO	$17.98	$16.67
Triangle USA Petroleum Corporation	NYSE	TPLM	$5.33	$5.10
Whiting Oil and Gas Corporation	NYSE	WLL	$35.13	$27.92
WPX Energy Williston, LLC	NYSE	WPX	$12.84	$10.46
XTO Energy, Inc. (ExxonMobil)	NYSE	XOM	$91.46	$87.95

IPs for ND Bakken wells

Jan. 27-Feb. 2, 2015

This chart contains initial production rates, or IPs, for active wells that were filed as completed with the state of North Dakota from Jan. 27-Feb. 2, 2015 in the Bakken petroleum system, which includes formations such as the Bakken and Three Forks. The completed wells that did not have an available IP rate (N/A) likely haven't been tested or were awarded confidential (tight-hole) status by the North Dakota Industrial Commission's Department of Minerals. This chart also contains a section with active wells that were released from confidential status during the same period, Jan. 27-Feb. 2. Again, some IP rates were not available (N/A). The information was assembled by Petroleum News Bakken from NDIC daily activity reports and other sources. The name of the well operator is as it appears in state records, with the loss of an occasional Inc., LLC or Corporation because of space limitations. Some of the companies, or their Bakken petroleum system assets, have been acquired by others. In some of those cases, the current owner's name is in parenthesis behind the owner of record, such as ExxonMobil in parenthesis behind XTO Energy. If the chart is missing current owner's names, please contact Ashley Lindly at alindly@petroleumnewsbakken.com.

County (Co.) abbreviations are as follows — BIL: Billings, BOT: Bottineau, BOW: Bowman, BRK: Burke, DIV: Divide, DUN: Dunn, GDV: Golden Valley, MCH: McHenry, MCK: McKenzie, MCL: McLean, MER: Mercer, MNT: Mountrail, REN: Renville, SLP: Slope, STK: Stark, WRD: Ward, WIL: Williams

IPs for completed North Dakota wells

NDIC No.	Well Name	Field	Location	Spacing	Co.	Geologic Target	Wellbore Type	Total Depth	IP Test Date	IP Rate (bbl)	IP Nat. Gas (mcf)	IP Water (bbl)
Continental Resources												
28081	Franklin 2-29H1	Stoneview	NENE 32-160-95	4SEC	DIV	Bakken	horz.	19,801'	1/7/15	443	619	342
28083	Franklin 4-29H1	Stoneview	NENE 32-160-95	4SEC	DIV	Bakken	horz.	20,007'	1/7/15	285	619	450
EOG Resources												
28746	Wayzetta 53-3334HX	Parshall	NENW 33-153-90	2SEC	MNT	Bakken	horz.	16,759'	12/3/14	708	592	1,207
Hess Bakken Investments II												
28395	AN-Evenson- LW-152-95-1003H-2	Antelope	SWSW 10-152-95	4SEC	MCK	Sanish	horz.	20,930'	1/13/15	969	1,478	239
28097	EN-Dobrovolny A- 155-94-2413H-5	Manitou	SWSE 24-155-94	2SEC	MNT	Bakken	horz.	20,141'	1/7/15	596	569	447
28098	EN-Dobrovolny A- 155-94-2413H-6	Manitou	SWSE 24-155-94	2SEC	MNT	Bakken	horz.	18,862'	1/10/15	726	694	61
28328	EN-Freda- 154-94-2635H-7	Alkali Creek	NWNE 26-154-94	2SEC	MNT	Bakken	horz.	20,424'	1/13/15	1,368	862	498
27683	EN-Pederson-LW- 154-94-0408H-4	Alkali Creek	SESW 33-155-94	4SEC	MNT	Bakken	horz.	21,022'	1/9/15	762	1,227	276
Oasis Petroleum North America												
27802	Andre Shepherd 5501 14-7 2T	Missouri Ridge	NENE 7-155-100	2SEC	WIL	Bakken	horz.	21,412'	12/28/14	438	1,424	1,977
27819	Andre Shepherd 5501 21-5 5T	Missouri Ridge	SWNW 5-155-101	2SEC	WIL	Bakken	horz.	20,710'	12/25/14	77	41	1,345
28027	Twobins 5501 13-29 5B	Missouri Ridge	NWNE 29-155-101	2SEC	WIL	Bakken	horz.	20,858'	12/25/14	2,070	691	5,066
SM Energy												
28041	Torgeson 2-15HN	West Ambrose	NWNE 15-163-100	2SEC	DIV	Bakken	horz.	18,382'	11/26/14	342	236	424
28042	Torgeson 2-15HS	West Ambrose	NWNE 15-163-100	2SEC	DIV	Bakken	horz.	17,868'	12/19/14	236	102	375
28040	Torgeson 2B-15HN	West Ambrose	NWNE 15-163-100	2SEC	DIV	Bakken	horz.	18,380'	12/6/14	374	220	270
Statoil Oil and Gas												
28733	Brown 30-19 #7TFH	Alger	SWSE 30-156-93	2SEC	MNT	Bakken	horz.	20,299'	12/24/14	2,400	1,778	3,622
24001	Syverson 1-12 3TFH	Stony Creek	LOT1 1-155-100	2SEC	WIL	Bakken	horz.	21,930'	12/18/14	1,670	1,589	4,791
Whiting Oil and Gas												
28647	Hansen 44-28-2H	Sanish	SESE 28-153-92	2SEC	MNT	Bakken	horz.	20,475'	1/4/15	1,176	353	3,467
28645	Hansen 44-28-3H	Sanish	SESE 28-153-92	2SEC	MNT	Bakken	horz.	19,930'	1/2/15	704	376	1,928
28646	Hansen 44-28TFH	Sanish	SESE 28-153-92	2SEC	MNT	Bakken	horz.	20,260'	12/31/14	1,030	617	4,038
29019	Mrachek 21-26-3HR	Nameless	NENW 26-151-102	2SEC	MCK	Bakken	horz.	20,245'	12/23/14	1,549	1,458	4,630
29020	Mrachek 21-26H	Nameless	NENW 26-151-102	2SEC	MCK	Bakken	horz.	20,372'	1/3/15	1,617	1,943	2,167
XTO Energy (ExxonMobil)												
28299	Omlid 41X-13H	Siverston	NENE 13-151-98	2SEC	MCK	Bakken	horz.	20,762'	1/20/15	1,749	3,548	1,156
Zavanna												
27302	Husky 33-28 4TFH	Williston	SWSW 32-155-100	2SEC	WIL	Bakken	horz.	20,180'	1/21/15	1,764	1,203	1,373
27301	Husky 33-28 6H	Williston	SWSW 33-155-100	2SEC	WIL	Bakken	horz.	20,815'	1/25/15	1,265	904	1,307

IPs for ND wells released from confidential status

NDIC No.	Well Name	Field	Location	Spacing	Co.	Geologic Target	Wellbore Type	Total Depth	IP Test Date	IP Rate (bbl)	IP Nat. Gas (mcf)	IP Water (bbl)
Crescent Point Energy U.S.												
28446	CPEUSC Getzlaf 36-25-158N-101W	Little Muddy	SESW 36-158-101	2SEC	WIL	Bakken	horz.	19,525'	12/8/14	297	260	691
EOG Resources												
27042	Parshall 46-1004H	Parshall	SESE 10-152-90	ICO	MNT	Bakken	horz.	22,268'	8/3/14	519	259	2,583
27206	Parshall 51-1114H	Parshall	SWNW 11-152-90	2SEC	MNT	Bakken	horz.	17,241'	8/3/14	277	144	873
27205	Parshall 52-1114H	Parshall	SWNW 11-152-90	2SEC	MNT	Bakken	horz.	18,187'	7/27/14	1,205	299	0
27116	Parshall 54-1014H	Parshall	NWNW 10-152-90	ICO	MNT	Bakken	horz.	20,600'	7/31/14	845	425	0
27115	Parshall 55-1014H	Parshall	NWNW 10-152-90	ICO	MNT	Bakken	horz.	20,443'	7/25/14	654	283	0
27035	Parshall 60-1509H	Parshall	SESW 15-152-90	ICO	MNT	Bakken	horz.	18,602'	8/1/14	441	16	2,600
27291	Parshall 61-15H	Parshall	NWNW 15-152-90	SEC	MNT	Bakken	horz.	14,853'	8/4/14	495	433	305
27437	Parshall 63-16H	Parshall	NWNW 16-152-90	SEC	MNT	Bakken	horz.	14,945'	8/1/14	1,204	220	1,084
27438	Parshall 64-16H	Parshall	NWNW 16-152-90	SEC	MNT	Bakken	horz.	14,356'	8/1/14	761	278	1,777
Marathon Oil												
28159	Wheeler USA 21-17TFH	Van Hook	NWNE 17-150-92	2SEC	MNT	Bakken	horz.	20,650'	11/19/14	2,004	1,875	2,169
Petro-Hunt												
27752	State of North Dakota 154-99-16A-5H	Stockyard Creek	SESW 9-154-99	ICO	WIL	Bakken	horz.	16,237'	11/2/14	836	1,053	1,784
PetroGulf												
28522	Three Tribes 151-94-3H	Antelope	SESW 31-151-93	2SEC	MNT	Sanish	horz.	20,977'	12/11/14	2,106	2,160	947
28523	Three Tribes 151-94-4HTF	Antelope	SESW 31-151-93	2SEC	MNT	Sanish	horz.	22,250'	12/19/14	1,572	1,606	883

see **ND IP** page 10

Petroleum news BAKKEN

North Dakota oil permit activity

Jan. 27-Feb. 2, 2015

Abbreviations - Following are the abbreviations used in the report and what they mean:
FNL = From North Line | FEL = From East Line
FSL = From South Line | FWL = From West Line

Permits issued

Well Name	Location	Footages	Field	Geologic Target	Wellbore Type	Elev.	NDIC No.	API No.	NDIC date
Bottineau Co.									
Noah Energy									
BP North Naas 1-4-20-163-82	SENE 20-163-82	2,091'FNL and 220'FEL	North Haas	N/A**	conf.	1,548'	30616	33-009-02436	2/2/15
Divide Co.									
Crescent Point U.S.									
CPEUSC Aldag 4-36-35-164N-100W	NENE 36-164-100	259'FNL and 311'FEL	West Ambrose	N/A*	conf.	2,091'	30622	33-023-01334	2/2/15
CPEUSC Fairholm 3-34-33-164N-100W	SENE34-164-100	2,296'FNL and 285'FEL	West Ambrose	N/A*	conf.	2,138'	30623	33-023-01335	2/2/15
SM Energy									
L. Johnson 4-30HN	LOT1 30-160-99	250'FNL and 945'FWL	Burg	N/A*	conf.	2,103'	30603	33-023-01332	1/29/15
L. Johnson 4-30HS	LOT1 30-160-99	250'FNL and 895'FWL	Burg	N/A*	conf.	2,103'	30604	33-023-01333	1/29/15
Dunn Co.									
Whiting Oil and Gas									
Charging Eagle 9-19-18-1H	NESE 19-147-91	2,030'FSL and 680'FEL	Twin Buttes	Bakken	horz.	2,294'	30601	33-025-02844	1/29/15
Charging Eagle 9-19-18-1H3	NESE 19-147-91	2,030'FSL and 650'FEL	Twin Buttes	Bakken	horz.	2,294'	30600	33-025-02843	1/29/15
Charging Eagle 9-19-18-1H3A	NESE 19-147-91	2,030'FSL and 710'FEL	Twin Buttes	Bakken	horz.	2,294'	30602	33-025-02845	1/29/15
Skunk Creek 1-8-17-15H	NENE 8-148-93	825'FNL and 465'FEL	South Fork	Bakken	horz.	1,998'	30599	33-025-02842	1/28/15
Skunk Creek 1-8-17-15H3	NENE 8-148-93	825'FNL and 435'FEL	South Fork	Bakken	horz.	1,996'	30598	33-025-02841	1/28/15
McKenzie Co.									
Continental Resources									
Wiley 6-25H1	NWNE 25-150-97	775'FNL and 1,575'FEL	Pershing	Bakken	horz.	2,241'	30578	33-053-06682	1/27/15
Wiley 7-25H	NWNE 25-150-97	775'FNL and 1,530'FEL	Pershing	Bakken	horz.	2,240'	30577	33-053-06681	1/27/15
Emerald Oil									
Robert the Bruce 1-25-36H	NWNW 25-147-103	245'FNL and 715'FWL	Pierre Creek	Bakken	horz.	2,206'	30590	33-053-06688	1/28/15
Hess Bakken Investments II									
BB-Federal- LE-151-95-0817H-1	SESE 5-151-95	214'FSL and 449'FEL	Blue Buttes	N/A*	conf.	2,360'	30575	33-053-06680	1/27/15
Newfield Production									
Prairie Moon 153-96-4-1H	NWNW 9-153-96	720'FNL and 903'FWL	Sand Creek	N/A*	conf.	1,893'	30629	33-053-06702	2/2/15
Prairie Moon 153-96-4-10H	NWNW 9-153-96	744'FNL and 909'FWL	Sand Creek	N/A*	conf.	1,893'	30630	33-053-06703	2/2/15
Prairie Moon 153-96-4-11H	NWNW 9-153-96	672'FNL and 889'FWL	Sand Creek	N/A*	conf.	1,892'	30627	33-053-06700	2/2/15
Prairie Moon Federal 153-96-9-1H	NWNW 9-153-96	696'FNL and 896'FWL	Sand Creek	N/A*	conf.	1,893'	30628	33-053-06701	2/2/15
Prairie Moon Federal 153-96-9-10H	NWNW 9-153-96	768'FNL and 916'FWL	Sand Creek	N/A*	conf.	1,894'	30632	33-053-06705	2/2/15
Prairie Moon Federal 153-96-9-11H	NWNW 9-153-96	648'FNL and 883'FWL	Sand Creek	N/A*	conf.	1,892'	30626	33-053-06699	2/2/15
Sondrol 11-3HU	LOT4 3-148-99	200'FNL and 599'FWL	Bully	Bakken	horz.	2,402'	30631	33-053-067042	2/2/15
QEP Energy									
Boggs 2-29-32T2HD	NWNW 29-150-95	302'FNL and 814'FWL	Grail	Bakken	horz.	2,272'	30608	33-053-06694	1/29/15
Boggs 5-29-32THD	NWNW 29-150-95	301'FNL and 889'FWL	Grail	Bakken	horz.	2,267'	30605	33-053-06691	1/29/15
Boggs 6-29-32THD	NWNW 29-150-95	301'FNL and 864'FWL	Grail	Bakken	horz.	2,269'	30606	33-053-06692	1/29/15
Boggs 8-29-32BDH	NWNW 29-150-95	301'FNL and 839'FWL	Grail	Bakken	horz.	2,270'	30607	33-053-06693	1/29/15
Boggs 29-32-30-31T3HD	NWNW 29-150-95	302'FNL and 789'FWL	Blue Buttes	Bakken	horz.	2,273'	30609	33-053-06695	1/29/15
Boggs 29-32-30-31THD	NWNW 29-150-95	302'FNL and 764'FWL	Blue Buttes	Bakken	horz.	2,275'	30610	33-053-06696	1/29/15
Tipi 1-24-25T2H	SESE 13-150-95	350'FSL and 855'FEL	Spotted Horn	Bakken	horz.	2,218'	30585	33-053-06687	1/28/15
Tipi 1-24-25TH	SESE 13-150-95	350'FSL and 805'FEL	Spotted Horn	Bakken	horz.	2,213'	30583	33-053-06685	1/28/15
Tipi 2-24-25BH	SESE 13-150-95	350'FSL and 830'FEL	Spotted Horn	Bakken	horz.	2,215'	30584	33-053-06686	1/28/15
Tipi 2-24-25TH	SESE 13-150-95	350'FSL and 905'FEL	Spotted Horn	Bakken	horz.	2,222'	30581	33-053-06683	1/28/15
Tipi 3-24-25BH	SESE 13-150-95	350'FSL and 880'FEL	Spotted Horn	Bakken	horz.	2,220'	30582	33-053-06684	1/28/15
Sinclair Oil and Gas									
Ersa Federal 3-4H	NWNW 4-148-99	455'FNL and 790'FWL	Bully	N/A*	conf.	2,343'	30596	33-053-06689	1/28/15
Ersa Federal 4-4TFH	NWNW 4-148-99	410'FNL and 790'FWL	Bully	N/A*	conf.	2,344'	30597	33-053-06690	1/28/15
Statoil Oil and Gas									
Banks State 16-21 #6TFH	SESW 9-152-98	260'FSL and 2,021'FWL	Banks	N/A*	conf.	2,154'	30624	33-053-06697	2/2/15
Banks State 16-21 #7H	SESW 9-152-98	260'FSL and 2,049'FWL	Banks	N/A*	conf.	2,154'	30625	33-053-06698	2/2/15
XTO Energy (ExxonMobil)									
Rink 12X-4C	SWNW 4-151-98	1,631'FNL and 250'FWL	Garden	N/A*	conf.	2,095'	30573	33-053-06678	1/27/15
Rink 12X-4H	SWNW 4-151-98	1,601'FNL and 250'FWL	Garden	N/A*	conf.	2,095'	30574	33-053-06679	1/27/15
Mountrail Co.									
EOG Resources									
Liberty LR 29-2321H	NWSE 23-151-91	2,365'FSL and 2,330'FEL	Parshall	Bakken	horz.	1,893'	30593	33-061-03555	1/28/15
Liberty LR 30-2321H	NWSE 23-151-91	2,265'FSL and 2,330'FEL	Parshall	Bakken	horz.	1,893'	30595	33-061-03557	1/28/15
Liberty LR 108-2321H	NWSE 23-151-91	2,315'FSL and 2,330'FEL	Parshall	Bakken	horz.	1,893'	30594	33-061-03556	1/28/15
Sidonia 52-2932H	NWNE 29-158-90	215'FNL and 1,450'FEL	Clear Water	Bakken	horz.	2,302'	30587	33-061-03550	1/28/15
Sidonia 53-2932H	NWNE 29-158-90	215'FNL and 1,500'FEL	Clear Water	Bakken	horz.	2,301'	30586	33-061-03549	1/28/15
Sidonia 56-2932H	NWNW 29-158-90	200'FNL and 1,100'FWL	Clear Water	Bakken	horz.	2,279'	30592	33-061-03554	1/28/15
Sidonia 104-2932H	NWNE 29-158-90	160'FNL and 1,410'FEL	Clear Water	Bakken	horz.	2,301'	30589	33-061-03552	1/28/15
Sidonia 105-2932H	NWNE 29-158-90	160'FNL and 1,460'FEL	Clear Water	Bakken	horz.	2,301'	30588	33-061-03551	1/28/15
Sidonia 110-2932H	NWNW 29-158-90	145'FNL and 1,110'FWL	Clear Water	Bakken	horz.	2,279'	30591	33-061-03553	1/28/15

see ND PERMITS page 11

ND IP *continued from page 8*

NDIC No.	Well Name	Field	Location	Spacing	Co.	Geologic Target	Wellbore Type	Total Depth	IP Test Date	IP Rate (bbl)	IP Nat. Gas (mcf)	IP Water (bbl)
Triangle USA Petroleum												
27944	Eckert Foundation 152-102-22-15-3H	Elk	SESE 22-152-102	2SEC	MCK	Bakken	horz.	20,711'	8/17/14	678	484	835
27943	Eckert Foundation 152-102-22-15-9TFH	Elk	SESE 22-152-102	2SEC	MCK	Bakken	horz.	20,729'	8/18/14	341	296	1,110
Whiting Oil and Gas												
27424	Talkington Federal 41-25PH	Park	LOT1 30-140-99	2SEC	STK	Bakken	horz.	21,192'	8/7/14	1,869	2,132	2,425
WPX Energy Williston												
28874	Mandaree 30-31HW	Reunion Bay	NWNW 30-150-93	2SEC	DUN	Bakken	horz.	21,530'	1/1/15	367	340	336

IP's for wells previously released from confidential status

NDIC No.	Well Name	Field	Location	Spacing	Co.	Geologic Target	Wellbore Type	Total Depth	IP Test Date	IP Rate (bbl)	IP Nat. Gas (mcf)	IP Water (bbl)
Continental Resources												
28604	Jamestown Federal 6-17H	Banks	SESW 8-152-99	2SEC	MCK	Bakken	horz.	21,410'	1/9/15	1,102	1,583	702
25004	Joanne 2-7H	Sadler	SWSW 7-161-95	2SEC	DIV	Bakken	horz.	18,560'	12/31/14	192	143	475
28624	Mildred 4-19H	Brooklyn	SESW 19-155-98	4SEC	WIL	Bakken	horz.	20,810'	12/24/14	876	1,407	920
Hess Bakken Investments II												
28097	EN-Dobrovolny A- 155-94-2413H-5	Manitou	SWSE 24-155-94	2SEC	MNT	Bakken	horz.	20,141'	1/7/15	596	569	447

—Ashley Lindly | alindly@petroleumnewsbakken.com

ND weekly county permit totals

Jan. 27-Feb. 2, 2015

County	Permits issued	Permits issued for confidential wells	Permits renewed	Location resurveys authorized
Bottineau	1	1	0	0
Divide	4	4	0	0
Dunn	5	0	2	0
McKenzie	28	13	1	0
Mountrail	14	4	0	0
Stark	1	0	0	0
Williams	7	2	0	4
Totals	**60**	**24**	**3**	**4**

Looking for a rig report?

North Dakota
The best list for North Dakota is updated daily by the North Dakota Oil and Gas Division at www.dmr.nd.gov/oilgas/riglist.asp

Saskatchewan
Weekly drilling activity report from the government of Saskatchewan:
www.economy.gov.sk.ca/Daily-Well-Bulletin-Weekly-Drilling-Reports

Manitoba
Weekly drilling activity report from the government of Manitoba:
www.manitoba.ca/iem/petroleum/wwar/index.html

Top 10 Bakken wells by IP rate

Jan. 27-Feb. 2, 2015

Statoil Oil and Gas				
28733	Brown 30-19 #7TFH	Alger	MNT	2,400
PetroGulf				
28522	Three Tribes 151-94-3H	Antelope	MNT	2,106
Oasis Petroleum North America				
28027	Twobins 5501 13-29 5B	Missouri Ridge	WIL	2,070
Marathon Oil				
28159	Wheeler USA 21-17TFH	Van Hook	MNT	2,004
Whiting Oil and Gas				
27424	Talkington Federal 41-25PH	Park	STK	1,869
Zavanna				
27302	Husky 33-28 4TFH	Williston	WIL	1,764
XTO Energy (ExxonMobil)				
28299	Omlid 41X-13H	Siverston	MCK	1,749
Statoil Oil and Gas				
24001	Syverson 1-12 3TFH	Stony Creek	WIL	1,670
Whiting Oil and Gas				
29020	Mrachek 21-26H	Nameless	MCK	1,617
PetroGulf				
28523	Three Tribes 151-94-4HTF	Antelope	MNT	1,572

Note: Note: This chart contains initial production rates, or IPs, from the adjacent IP chart for active wells that were filed as completed with the state of North Dakota from Jan. 27-Feb. 2, 2015 in the Bakken petroleum system, as well as active wells that were released from tight- hole (confidential) status during the same period. The well operator's name is on the upper line, followed by individual wells; the NDIC file number; well name; field; county; IP oil flow rate in barrels of oil.

ND PERMITS *continued from page 9*

Abbreviations - Following are the abbreviations used in the report and what they mean:
FNL = From North Line | FEL = From East Line
FSL = From South Line | FWL = From West Line

Hunt Oil									
Patten 153-89-27-22H 1	SWSW 27-153-89	344'FSL and 529'FWL	Parshall	N/A*	conf.	2,080'	30615	33-061-03561	1/30/15
Sinclair Oil and Gas									
Sinclair State 4-36H	SWSE 36-154-93	290'FSL and 2,198'FEL	Robinson Lake	N/A*	conf.	2,235'	30613	33-061-03559	1/30/15
Uran 5-15H	NWNE 15-153-92	400'FNL and 1,772'FEL	Sanish	N/A*	conf.	2,336'	30612	33-061-03558	1/30/15
Slawson Exploration									
Serpent Federal 5-36-31TFH	SENE 35-151-92	1,525'FNL and 300'FEL	Big Bend	N/A*	conf.	1,886'	30614	33-061-03560	1/30/15
Whiting Oil and Gas									
Roggenbuck 34-24-2TFH	SWSE 24-153-93	795'FSL and 2,000'FEL	Sanish	Bakken	horz.	2,211'	30579	33-061-03548	1/27/15
Stark Co.									
Emerald Oil									
Harry Dunne 4-26-35H	NWNE 26-140-98	320'FNL and 1,450'FEL	Green River	Bakken	horz.	2,580'	30580	33-089-00867	1/28/15
Williams Co.									
Hess Bakken Investments II									
CA-Ferguson Smith- LW-155-95-3031H-1	LOT130-155-95	562'FNL and 987'FWL	Capa	N/A*	conf.	2,145'	30576	33-105-03961	1/27/15
Liberty Resources Management									
Leon 158-95-17-8-1MBH	SESW17-158-95	262'FSL and 1,830'FWL	McGregor	Bakken	horz.	2,395'	30618	33-105-03964	2/2/15
Leon 158-95-17-8-1TFH	SESW17-158-95	262'FSL and 1,800'FWL	McGregor	Bakken	horz.	2,394'	30617	33-105-03963	2/2/15
Leon 158-95-17-8-2MBH	SESW17-158-95	262'FSL and 1,860'FWL	McGregor	Bakken	horz.	2,396'	30619	33-105-03965	2/2/15
Leon 158-95-17-8-3TFH	SESW17-158-95	262'FSL and 1,890'FWL	McGregor	Bakken	horz.	2,397'	30620	33-105-03966	2/2/15
Leon 158-95-17-8-4TFH	SESW17-158-95	262'FSL and 1,920'FWL	McGregor	Bakken	horz.	2,397'	30621	33-105-03967	2/2/15
XTO Energy (ExxonMobil)									
Odegaard State 31X-16DXA	NWNE 16-157-95	450'FNL and 2,237'FEL	Midway	N/A*	conf.	2401'	30611	33-105-03962	1/30/15

Permits renewed

Well Name	Location	Footages	Field	Geologic Target	Wellbore Type	Elev.	NDIC No.	API No.	NDIC date
Dunn Co.									
Petro-Hunt									
Marinenko 145-97-31D-30-1H	SWSE 31-145-97	245'FSL and 1,401'FEL	Little Knife	N/A*	conf.	2,514'	27595	33-025-02459	2/2/15
Marinenko 145-97-31D-30-2H	SWSE 31-145-97	245'FSL and 1,477'FEL	Little Knife	N/A*	conf.	2,512'	27596	33-025-02460	2/2/15
McKenzie Co.									
Enerplus Resources USA									
Fool Bear 23-34H	SWSE 23-152-94	275'FSL and 1,320'FEL	Antelope	N/A**	conf.	2,138'	20376	33-053-03460	2/2/15

Permits cancelled

Well Name	Location	Footages	Field	Geologic Target	Wellbore Type	Elev.	NDIC No.	API No.	NDIC date
McKenzie Co.									
Kodiak Oil and Gas									
Sorenson Federal 4-9H	NWNW 9-153-96	677'FNL and 891'FWL	Sand Creek	Bakken	horz.	1,893'	18813	33-053-03131	1/30/15

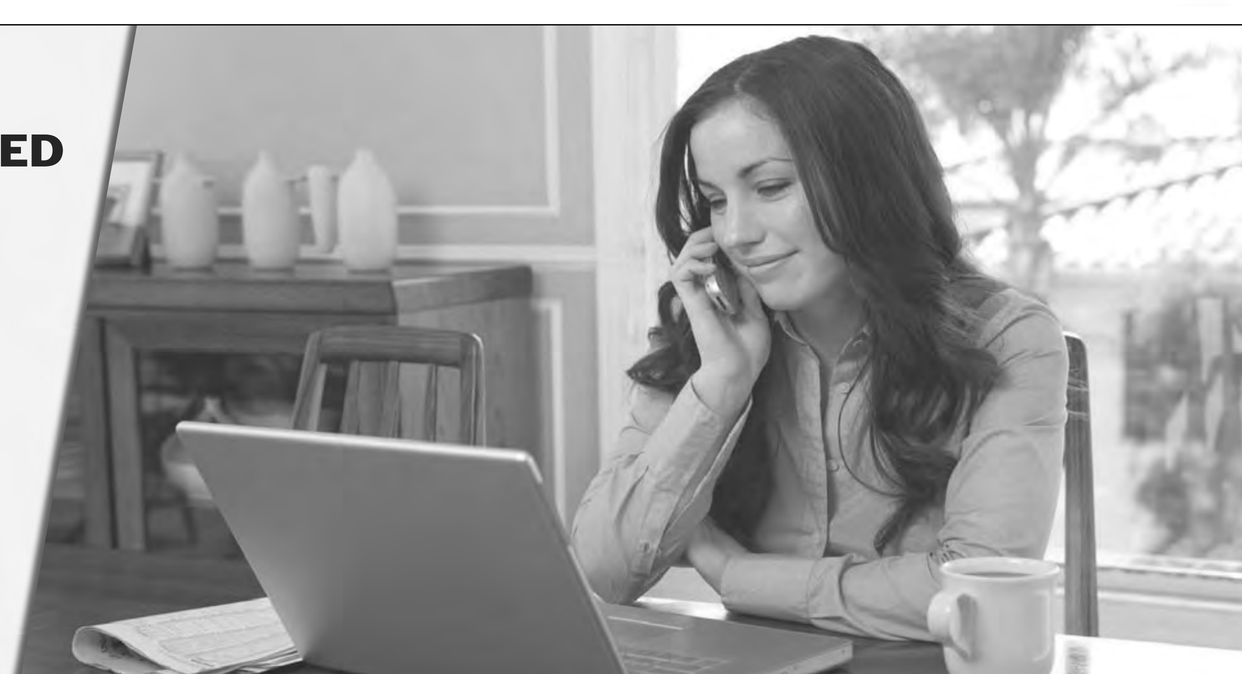
Location resurveyed

Well Name	Location	Footages	Field	Geologic Target	Wellbore Type	Elev.	NDIC No.	API No.	NDIC date
Williams Co.									
Statoil Oil and Gas									
Judy 22-15 2H	NWNW 27-156-100	207'FNL and 741'FWL	East Fork	N/A*	conf.	2,051'	24773	33-105-02970	1/29/15
Panzer 22-23 #6H	SWSW 22-155-92	1228'FSL and 346'FWL	Alger	N/A*	conf.	2,278'	30454	33-061-03505	2/2/15
Panzer 22-23 #7TFH	SWSW 22-155-92	1202'FSL and 346'FWL	Alger	N/A*	conf.	2,278'	30455	33-061-03506	2/2/15
Panzer 22-23 #8H	SWSW 22-155-92	1172'FSL and 346'FWL	Alger	N/A*	conf.	2,278'	30456	33-061-03507	2/2/15

* **Note:** The geologic target for these wells was not listed in its well file because they are tight (confidential) holes, but the following fields produce from the Bakken pool; Alger, Banks, Big Bend, Blue Buttes, Bully, Burg, Capa, East Fork, Garden, Liitle Knife, Midway, Parshall, Robinson Lake, Sand Creek, Sanish, and West Ambrose.

** **Note:** The geologic target for these wells was not listed in its well file because they are tight (confidential) holes, but the Antelope field produces from the Sanish pool and the North Haas field produecs from the Madison pool.

—Ashley Lindly | alindly@petroleumnewsbakken.com



continued from page 4

REVISED FORECAST

Mineral Resources' Oil and Gas Division and the oil and gas industry.

In the 2015-17 biennium, general fund revenues are projected to be $5 billion, down $550 million from the December projection and $565 million less than the current biennium's revenues. At the end of the next biennium, the Resources Trust Fund, which funds the state's water projects, is expected to collect $345 million and the Strategic Investment and Improvement Fund, a surplus fund, is projected to have a $421 million balance.

"It's still a lot of money being collected," Carlson said. "We'll be forced to make some hard decisions and do a lot more prioritizing."

He noted that the projected revenue is nearly identical to the 2011-13 biennium and the Legislature has protected property tax relief dollars it has promised to citizens.

"The sky isn't falling," he said. "This is responsible and it's realistic."

The projected revenue is based upon a 75 percent state/25 percent counties formula distribution of the gross oil production tax, but western North Dakota is hopeful that a bill to make that split 60/40 giving oil producing counties the greater share will make its way to the governor's desk this session.

The new projections also assume a large tax exemption that is likely to trigger from June 2015 through March 2016. The trigger kicks in if the average price falls below $52.59 a barrel for five consecutive months and is removed once prices average above $72.50 for five consecutive months. The result is an $883 million cut in collections for the 2015-17 biennium. A smaller trigger resulted in a tax exemption effective Feb. 1 (see related story, page 1).

Oil industry isn't leaving

Wardner said companies are not planning operations based on the triggers because they have to manage cash flow and need to keep moving and selling product. North Dakota Petroleum Council President Ron Ness told Petroleum News Bakken that he agreed that companies cannot hold off on operations hoping the trigger kicks in, but the large trigger is appealing in that it would provide a 130 percent reduction in their taxes.

"As you get closer to that date and the exemption comes, I think the hope is that you'd see some price recovery and then that price trigger would make a significant impact," Ness said. "The problem with these triggers is that five months is a very long period of time. You've made a lot of business decisions before you get to that point."

Whether operators take advantage of triggers or not, Carlson said they are here to stay.

"This is still the honey hole. Of all the places in the U.S., this is number one for productivity," Carlson said. "They'll never leave because they know these prices will rebound. … They're not leaving; there will be consolidations, things that happen when markets turn. There may be less players in the end — bigger players — but the players aren't leaving because this is where they want to do business." ●

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continued from page 4

RAIL COSTS

commodities should grow by 75,000 carloads in 2015 to 292,000, regardless of the oil price collapse and CN Rail's own forecast that crude prices will average only US$50 a barrel this year.

"We see very strong growth potential, albeit at a slower pace in energy markets," Chief Executive Officer Claude Mongeau told analysts during a fourth-quarter results call on Jan. 29.

CN Rail, with 23 intermodal terminals in the United States and Canada offers the only rail network that reaches the Atlantic, Pacific and Gulf coasts of North America, allowing it to carry the full range of crudes.

John Zahary, chief executive officer of oil-by-rail company Altex Energy, is counting on stable volumes this year, noting that refiners have to keep their plants full and producers can ill-afford to stop selling their oil, even in a bleak market.

Altex, a private company whose major shareholder is Kern Partners, is pressing on with plans to expand its operations in the United States and Canada, targeting 425 tanker cars and average volumes of 232,000 bpd in 2016.

A spokesman for MEG Energy, one of the most active users of rail to get around pipeline constraints, said the flexibility offered by rail allows it to reach high-priced markets.

Crude versus grain

One of the toughest challenges faced by CN and CP is their obligation to serve Western Canada's grain industry under legislation imposed by the Canadian government last year amid accusations that the energy industry was receiving preferential treatment from the railways.

They are both again coming under fire from a coalition of agricultural associations, which accuses them of failing to supply more than 11,000 cars that were ordered in the first five months of the crop year, starting last September.

The coalition said the shortfall has continued to grow each week, with about half of the delayed customer orders outstanding for at least one month.

"It makes it problematic when we are trying to draw in products from grain farmers and execute on sales contracts," said Wade Sobkowich, executive director of the Western Canadian Grain Elevator Association.

But he said service in the grain sector is better than a year ago, when CN was fined C$100,000 and CP C$50,000 for failing to transport their mandated minimum grain volumes.

Transport Minister Lisa Raitt has warned that fines for delays could total up to C$100,000 a day for the railways, but her department has indicated it does not plan to impose penalties of more than C$100,000 a week unless ordered by the minister.

CN Rail's Chief Financial Officer Luc Jobin said his company plans to increase capital spending this year by C$300 million to C$2.6 billion, with half that budget item going to track infrastructure and network maintenance and C$500 million for equipment, including 90 new locomotives.

CN Rail said surging shipments in energy-related commodities played a large role helping it achieve record full-year freight volumes, including a 33 percent increase in fourth-quarter earnings to a record C$844 million, allowing the railway to boost its dividends for the quarter by 25 percent.

Mongeau said the dividend hike signals CN Rail's confidence, despite the "uncertainty out there" on crude-by-rail business.

"We believe the environment is conducive to continued growth, especially as we see the impact of lower oil prices on consumer income," he said. ●

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continued from page 3

O'CONNELL Q&A

So we need to try to get the older ones cleaned up and something growing because a lot of land is being lost. I'm being told financial institutions won't finance when there's possibly damage out there. That's where they get real concerned is transferred land from father to son or there's a lot of land in my area that grandpa left it to all the grandkids and now they're combining the assets and trying to sell it, and that's where they're having trouble.

Petroleum News Bakken: Do those issues factor into the bill you are co-sponsoring that would require more stringent enforcement of oil and gas regulations?

O'Connell: Basically constituents are saying there's not enough enforcement. I think we have enough laws out there but they (regulators) are spread so thin. Most of the oil people, especially ones I work around, are excellent neighbors but you have a few — very, very few — that are running on a shoestring when the price is good. And they just basically try to get by with as little expenses as they possibly can and it's backfiring on them. Pipes aren't being put in the ground properly, reclaiming the land isn't being done properly, and they're just trying to cut corners.

Petroleum News Bakken: You're also named on a bill to take the oil conditioning and flaring orders issued by the Industrial Commission and put them through a rulemaking process or void them entirely. What are your thoughts on this?

O'Connell: I think they (the Industrial Commission) have overstepped their bounds as far as conditioning the oil. I know they say it's highly volatile, but I've been in that business so I see that these people are trained well that go on site. I don't care if you're a truck driver or running a little Bobcat, these people are trained. These companies spend millions of dollars on just being safe. I'm getting tired of more and more rules forced down their throat, that's my opinion. I could be way off base, but everybody around here says let's keep government out of their life and then you turn around and pass 10 bills to put government back into it and I don't believe in it.

Petroleum News Bakken: You've spent more than 30 years in the Legislature. How does this session compare with all the others?

O'Connell: To compare one session to another is almost impossible. Every session has a different makeup, new characters, new faces, different money. I can remember when I first got into leadership and appropriations — I don't think we ever heard the word "million." We'd hear, "Is there any way you can squeeze another $50,000 in?" Now I don't think we ever hear the word "thousand." Money is a different player altogether.

When I first came in, my wife was chairman of the Democratic Women. The Republican and Democratic women had functions so I'd come home at night and she'd say, "Well, this is going to happen," and I'd say, "Yeah, sure." The women knew what was happening before we ever did and we were sitting in the chairs! It was that kind of communication with the governor and spouses that I miss. I was also one of the first four in the senate to have a computer. The biggest difference now is the quickness — people want an answer before they hit the send key. I'm running at around 150 to 200 emails a day. They just come in continuously. ●

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continued from page 1

CONTINENTAL OUTPUT

tion milestone with output hitting 200,000 boepd. At 70 percent crude, Continental's daily crude production averaged approximately 122,000 barrels per day throughout 2014.

Continental announced that proved reserves stood at 1.35 billion boe as of Dec. 31, some 267 million boe over year-end 2013, an increase of 25 percent. Proved developed producing reserves increased 21 percent to 490 million boe, and the company reports 2,994 gross (1,565 net) proved undeveloped locations at the end of 2014.

Also, 866 million of the proved reserves, 64 percent, are in the Bakken. The company's assets in the Woodford and Springer plays of the South-central Oklahoma oil province, SCOOP, combined account for 27 percent of the proved reserves.

Of the 1.35 billion boe in proved reserves, 83 percent is operated by Continental. Sixty-four percent of the proved reserves is crude oil and 36 percent is proved developed producing. Eighty-three percent of the proved reserves is company-operated and 64 percent is crude oil.

Continental also reports a PV-10 (present value of estimated reserves with a 10 percent annual discount rate) for the proved reserves of $22.8 billion, up 13 percent over year-end 2013. For the Bakken, the company reports a PV-10 of $15.2 billion.

"2014 marks the 7th straight year since our IPO we have consistently delivered significant reserve and production growth," Continental Chairman and CEO Harold Hamm said in a Feb. 3 press release. "Our core assets in the Bakken of North Dakota and SCOOP Woodford/Springer in Oklahoma continue to provide exceptional results and are a testament to the quality of the base assets and the ability of our teams."

—MIKE ELLERD

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continued from page 1

NEW XL OBSTACLE

production to fill the bulk of its shipments of 830,000 barrels per day, leaving room for about 100,000 bpd from the Bakken.

Prentice said his objective was to make sure the "facts are straight" on XL, but "not to insert myself in the political dynamic that's taking place" between President Barack Obama and the U.S. Congress.

He told a news conference Feb. 2 there's a "sense that we're in the closing chapter" on the XL debate, based on his discussions in Washington and comments made the previous day by Secretary of State John Kerry, who said all federal agency submissions on XL were due Feb. 2, leaving him and Obama to make the final decisions.

Whatever facts Prentice was able to impart would have been lost in a letter to the State Department from Cynthia Giles, EPA's deputy administrator for enforcement, who undercut long-standing assurances that XL would have a neutral impact on Canadian carbon emissions.

Giles said the State Department's own environmental impact analysis made it clear the pipeline would generate as much as 24.7 million metric tons a year of carbon dioxide equivalents — matching emissions from 5.7 million passenger vehicles.

She argued that XL should not be approved until ongoing efforts to reduce GHGs associated with the production of oil sands (which would account for the bulk of crude shipments on the 830,000 barrels per day pipeline) were "more successful and widespread."

Pessimism and optimism

Battling the odds, Prentice said that even if Obama vetoes the U.S. Senate's latest bipartisan bill to approve the pipeline there's an "inevitability" that XL will be attached to another bill.

Prominent Arizona Sen. John McCain was less enthusiastic, telling reporters he did not expect a quick resolution on XL, doubting the Senate could muster 67 votes to override an Obama veto.

Sen. John Boozman, R-Arkansas, said he did not expect the EPA report would make a material difference to the pipeline debate.

"They can say what they want, but all of the studies indicate that the best way to transport oil is to pipe it," he said. "Oil is going to be used, regardless."

Prentice conceded that the politics around XL are "complicated."

He said the issues will not be resolved in a matter of days, but he still expects Obama to decide on the application for a presidential permit before the end of July.

David Manning, the Alberta government's representative in Washington, said "there is a very strategic role for Alberta in the U.S. economy that would probably be better understood if we weren't always having to put it in the context of Keystone, which has become such a politically polarized discussion."

TransCanada Chief Executive Officer Russ Girling welcomed Prentice's efforts to counter "misinformation" from groups such as the Natural Resources Defense Council.

"The rhetoric has reached a new level and a calming voice ... would be very beneficial right now," he said.

Prentice said he highlighted Alberta's environmental record which he called the "best of any oil producing jurisdiction in the world," including a C$15 per metric ton levy on carbon emissions by major industries and investments in carbon capture and storage technology.

Two sides, two views

XL opponents seized on the EPA assessment to step up the pressure on Obama to reject the project.

"Keystone is a climate disaster by any realistic assessment," said 350.org founder Bill McKibben. "The president's got every nail he needs to finally close the coffin on this boondoggle."

Danielle Droitsch, Canada project director at the Natural Resources Defense Council, said the EPA assessment "is spot on. There should be no more doubt that President Obama must reject the proposed pipeline once and for all."

Louis Finkel, executive vice president of the American Petroleum Institute, said the science behind building XL "has been settled five times over. The State Department has concluded the pipeline is safe to build and it will not have a significant impact on the environment."

He said Americans would rather get the bulk of the 8 million to 9 million barrels they import daily from Canada than Venezuela or the Middle East.

Finkel urged Obama to reconsider his veto threat and "put good public policy ahead of politics."

—GARY PARK

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Petroleum news BAKKEN

Oil Patch Bits

United Blood Services, NDPC to host Bakken blood drive

United Blood Services will join forces with the North Dakota Petroleum Council to host the First Annual Battle of the Bakken Blood Drive throughout western North Dakota. The blood drive, which will pit companies operating in the Bakken against one another in a friendly competition, is an opportunity for industry employees, their friends and family and the public to positively impact their communities and state. Companies will compete by recruiting the most people to donate blood on their behalf.

"We each can have such a positive impact in the community around us. It's just a matter of saying 'yes' when asked to give. We are excited to partner with the North Dakota Petroleum Council to ultimately save lives through this blood drive effort and encourage those who have never tried donating blood, to say 'Yes' this month," said Travis Dressler, spokesman for United Blood Services.

Companies will be competing for $1,000 to be donated to the charity of their choice, but the competition isn't limited to industry employees. Friends and families or members of the public that want to see their charity receive the award can go to any of the locations on the website and donate on a company's behalf.

The blood drive will run through March 1. Individuals may donate blood at one of the scheduled stops in western North Dakota or go into their local United Blood Services location to donate. A list of registered participating companies and more information is available at http://northdakotaoilcan.com/events/BakkenBloodDrive/.

Bakken Players

continued from page 1

TAX TRIGGER

the tax reduction. Once in effect, the incentive can only be triggered off when the price of West Texas Intermediate reaches an average of $72.50 per barrel of oil as reported for a single month.

Tax Commissioner Ryan Rauschenberger said the tax reduction was passed by the 2009 Legislature as a way to incentivize drilling and encourage continued production through low oil prices.

"Through this incentive, the state is acknowledging the importance of the oil and gas industry to the state's economy by easing a portion of the tax burden during times of low oil prices," Rauschenberger said.

North Dakota Petroleum Council President Ron Ness told Petroleum News Bakken that the trigger will not be a huge factor for companies since the cost to complete a well in the winter runs much higher. He said at current oil prices, the benefit is about a $170,000 savings on a completion which is eaten up in heating costs in two or three days.

"I don't think the little trigger, at this price, is going to have an impact just because we are so below the economic threshold," Ness said.

He added that the trigger has a lot of value if it kicked in during summer months when drilling costs are lower or for an operator "right on the bubble" of making the decision of whether to keep a rig drilling or not.

"In some areas, you're $40 to $50 out of the margin and in other areas it's still $15 to $19 back where reducing that tax would make a difference."

In the past, tax incentives were enacted immediately by the Legislature, making this the first time in state history that the Tax Commissioner's office has triggered the incentive.

Large trigger on the horizon

Another trigger is anticipated to provide a large tax incentive in June if the WTI oil price stays below $55.09 for five consecutive months. It would then take five consecutive months of oil prices averaging $72.50 to trigger off. Historically, this incentive was in place for 17 years but has been triggered off since 2004. When in place, operators do not pay any extraction taxes on new wells for the first 24 months of production, whether or not they're drilled prior to the incentive triggering. If wells are beyond their first 24 months of production, they would go to a 4 percent rate. The Legislature expects the large trigger to take effect in June and updated its revenue forecast with that assumption (see story, page 4).

—MAXINE HERR

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continued from page 1

FUNDING CHANGES

mula change should have been addressed in 2009 or 2011 to avoid being in "catch-up mode."

"It's hard," Kempenich told the committee. "There's always 20/20 hindsight."

The other 20 percent

The other side of the equation is the one-fifth of the 5 percent which is used to fund hub cities — currently Williston, Dickinson and Minot — and hub city school districts. The proposed bill would increase the hub cities allocation from $375,000 to $500,000 and raise the school district funds from $125,000 to $150,000 for each full or partial percentage point of the community's population that reports oil or gas related employment. The previous language required the percentage points to be determined based on the number of people directly employed by "the mining industry," which includes oil and gas, but by changing the language to specify employment "related" to the oil and gas industry, the number of hub cities could easily expand.

From this one-fifth, school districts that receive $5 million or more of the oil and gas production revenue would also get another $1.75 million. Additionally, the Oil and Gas Impact Grant Fund, the Outdoor Heritage Fund and the Reclamation Fund each receive allocations, but the proposal would decrease the amount sent to those funds.

The history of the formula

The state's gross production tax was enacted in 1953. At that time, the tax was 4.25 percent and rose to 5 percent in 1957 where it has remained ever since, but the distribution formula has seen plenty of modifications over the years. From 1957 to 1981, the formula provided the first 1 percent to the general fund and the remaining 4 percent to counties in a tiered fashion. For instance, the counties received 75 percent of the first $200,000, 50 percent of the next $200,000 and 25 percent of the remaining revenue. In 1981, 2007 and 2009, the legislature changed the thresholds giving greater allocations to the counties considering that tax collections increased from $306,000 in 1954 to more than $1.49 billion in fiscal year 2014. In 2013, the formula was amended to give 100 percent of the first $5 million of tax revenues to counties and 25 percent of the revenues thereafter. But because the legislature had also put caps on how much a county could receive, the counties' percentage share of the tax revenue has never been as robust as it was from 2005 to 2007 despite the growth in production simply because of the way the formula was designed.

"With the formula change as proposed, the numbers for the counties and communities is variable with the price of oil," said Brent Bogar, spokesman for the North Dakota Association of Oil and Gas Producing Counties. "In the end, the new revenue forecast has lowered the dollars going to the oil and gas political subs by just over 600 million."

Dividing the money

The money to counties has always been split between cities, school districts and the county's general fund with 20, 35 and 45 percent, respectively, regardless if it was the first million or the last. But in 2013, the legislature made a change in which those percentages were applied to the first $5 million, and if a county received more than that, the general fund earned 60 percent, the school districts got 5 percent and cities were given 20 percent. Townships also entered the mix each taking an even share of 3 percent of the money then splitting another 3 percent based on road miles. The three hub cities received the final 9 percent.

The state also instituted some distribution limits in 1981 on how much total annual revenue a county could receive from oil and gas production tax collections. While amended the following session, the limits were not removed until 2009. ●

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continued from page 1

MDU PLANS

operational and we want that completed before we really dive deep into our second refinery," said Steve Bietz, president and CEO of MDU subsidiary WBI Energy. "We plan to take some time to think about things that went well and things that were challenged with our first refinery and use those lessons learned to put together our plan for the second refinery," he continued. "Some changes in the oil market give us some breathing room to do that."

> *"Our focus is to get the refinery up and operational and we want that completed before we really dive deep into our second refinery."*
> **—Steve Bietz, WBI Energy**

Midstream development

WBI Energy, MDU's pipeline and energy business, has agreed to connect to the Demicks Lake natural gas processing plant in northwestern North Dakota to deliver natural gas into a new interconnect with the Northern Border pipeline. Project costs are estimated to be about $50 million. In addition, the pipeline group has continued with permitting and acquisition of easements on the $120 million Wind Ridge Pipeline project to provide 90 million cubic feet per day of natural gas to a fertilizer manufacturing plant to be built at Spiritwood near Jamestown, North Dakota. The company said there is also an opportunity to expand this pipeline's capacity to serve other customers in the eastern half of the state.

WBI increased earnings substantially to $22.6 million due in part to higher transportation rates but also to strong results of its 50 percent ownership with Whiting Petroleum in the Pronghorn natural gas and oil gathering facility near Belfield in northwestern Stark County, North Dakota. Total transportation volumes reached a record level, increasing 31 percent.

Fidelity off the market

As previously reported by Petroleum News Bakken, too much instability in commodity prices forced MDU to take Fidelity off the market after initial plans were to sell it in 2015.

Instead of selling, the company plans to spend $111 million in gross capital expenditures on the exploration and production company this year while minimizing investments to lower its cost structure. Goodin said Fidelity will be operated with estimated cash flow, focusing on completing the wells it drilled in 2014. It does not intend to run any rigs until the end of 2015, and only then if oil prices rebound.

"There was quite a bit of instability and volatility in the world market for oil and we just feel it wasn't an appropriate time to put what we feel is a very valued business up for sale," Goodin said.

Fidelity's oil production increased slightly in 2014 to 4.919 million barrels or approximately 13,500 barrels per day, a 2 percent increase over 2013. Leading that increase was 25 percent growth in the company's Paradox Basin production along with an acquisition of non-operated assets in the Powder River Basin. But production growth was partially offset by the sale of some North Dakota Bakken assets.

For the year, Fidelity's average realized price per barrel of crude, including realized commodity derivatives, was $85.96, down from the 2013 average of $89.35. In the fourth quarter, the realized price averaged $87.80, up from $84.23 in the fourth quarter 2013. However, excluding realized and unrealized commodity derivatives, the fourth quarter 2014 realized price averaged $61.37 per barrel, down from $84.18 in the fourth quarter 2013.

Fidelity CEO Kent Wells told analysts that commodity prices made it easy to delay the marketing process, and the challenge will be to know when to start again. In the meantime, Fidelity will aim for reduced operating costs and a solid capital structure in order to make profitable investments in the future, he said. "We'll take advantage of this time to position us better."

Wells has announced he will retire on Feb. 28, leaving the reins to Pat O'Bryan, current Fidelity president (see story, page 6).

Overall 2014 earnings

In addition to WBI Energy and Fidelity, Bismarck-based MDU Resources Group also owns companies offering construction services and electric utilities.

During the fourth quarter, MDU earned $84.1 million which was a decrease from 2013's fourth quarter total of $91.3 million, but for the year, the company reported 2014 consolidated earnings of $297.5 million, up from $278.2 million in 2013.

"As we look forward, we are focused on execution of our business plans and investment opportunities at our utility, pipeline and energy services and construction operations, while also determining the appropriate timing of when to begin the marketing of our exploration and production business," Goodin said. ●

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Feb . 3, 2015 North Dakota Department of Trust Lands Oil and Gas Lease Auction Results by High Bidder

High Bidder	County/Counties[A]	Tracts	Total Acres	Total Spend	High Bid	Low Bid	Average Bid
Empire Oil Co., Williston, North Dakota	MCK	1	160.00	$140,000.00	$875.00	$875.00	$875.00
Herco LLC, Billings, Montana	DIV	2	92.55	$49,775.00	$675.00	$500.00	$537.82
Norwegian American Oil Corp., Minneapolis, Minnesota	MNT, STK	4	44.23	$11,313.98	$475.00	$26.00	$255.80
Diamond Resources Co., Williston, North Dakota	BRK	14	1,359.12	$307,189.20	$410.00	$60.00	$226.02
Northern Energy Corp., Bismarck, North Dakota	BOT, BRK, DIV, DUN, MCK, MNT, STK, WIL	167	14,279.46	$308,745.76	$400.00	$1.00	$21.62
Land 4 Energy Group LLC, Denver, Colorado	BRK	7	488.00	$100,480.00	$390.00	$80.00	$205.90
SM Energy Co., Billings, Montana	DIV	10	719.50	$195,070.00	$320.00	$260.00	$271.12
Cody Exploration, Bismarck, North Dakota	MNT	4	140.09	$18,501.25	$290.00	$65.00	$132.07
Wildcat Oil and Gas LLC, Bismarck, North Dakota	MNT, STK	3	100.00	$6,800.00	$80.00	$50.00	$68.00
Trinity Western, St. Paul, Minnesota	DUN, MNT, STK	6	72.00	$3,640.00	$75.00	$20.00	$50.56
InterWest Petroleum, Dickinson, North Dakota	STK	5	360.00	$5,680.00	$30.00	$6.00	$15.78
White Butte Resources, Bismarck, North Dakota	STK	1	40.00	$560.00	$14.00	$14.00	$14.00
Copperhead Corp., Minot, North Dakota	BOT	1	22.65	$113.25	$5.00	$5.00	$5.00
TOTALS/HIGH/LOW/AVERAGES		**225**	**17,877.60**	**$1,147,868.44**	**$875.00**	**$1.00**	**$64.21**

A: BOT, Bottineau; BRK, Burke; DIV, Divide; DUN, Dunn; MCK, McKenzie; MNT; Mountrail; STK, Stark; WIL, Williams.

continued from page 1

NDTL AUCTION

is their proximity to federal lands. As in the November lease auction, Combs said some of the tracts in the February auction are "island" tracts which are surrounded by Bureau of Land Management properties and which federal permitting requirements could make less attractive.

The 17,887.6 acres leased in the February auction were spread across 225 tracts in eight North Dakota counties...

Who, where and how much

The 17,887.6 acres leased in the February auction were spread across 225 tracts in eight North Dakota counties: Botttineau (1307.69 acres, $19.99 per acre average), Burke (2,284.49 acres, $189.54 average), Divide (3,218.92 acres, $101.87 average), Dunn (3,664.55 acres, $1.12 average), McKenzie (880 acres, $186.36 average), Mountrail (2,451.87 acres, $67.68 average), Stark (3,990.08 acres, $6.04 average) and Williams (80 acres, $33 average).

The highest bid received in the auction for Trust Lands leases was $875 paid by Empire Oil Co. of Williston for a lease on a 160-acre tract in McKenzie County (see table). Behind Empire Oil with the second highest successful bid was Herco LLC of Billings, Montana, with a bid of $675 for a 20-acre tract in Divide County. Herco paid $500 per acre for a 72.55-acre tract, also in Divide County. Eleven other high bidders leased the remaining 222 tracts in the auction (see table).

Picking up most leases was Northern Energy Corp. of Bismarck which secured leases on a total of 14,279.46 acres in 167 tracts scattered among all eight counties represented in the auction. Northern Energy paid between $1 and $400 per acre for its leases, but many of the leases received no bids and Northern Energy was able to acquire them for the $1 nomination fee. Its price per acre averaged just $21.62 for the 167 leases.

Diamond Resources picked up the second highest number of acres at 1,359.12 in 14 tracts all in Burke County for an average of $226.06 per acre. Lease acreages acquired by the remaining successful bidders ranged from 22.65 to 719.20 acres (see table).

Higher Ed tracts top sale

Two Board of Higher Education tracts that Trust Lands offered in the auction brought the highest bids at $6,100 and $2,750 per acre. Both of the tracts — one a 40-acre tract and the other 36.61 acres — are in the College Hill Addition within the Williston city limits. Trust Lands occasionally includes tracts belonging to other state entities in its quarterly auctions.

Sioux County tracks pulled

The initial auction list included 2,717.04 acres in 20 tracts on the Standing Rock Indian Reservation in Sioux County in south-central North Dakota which had been nominated by landowners, but those tracts were pulled from the February auction at the request of the Standing Rock Sioux tribe. The tribe is responsible for the archeology studies and asked Trust Lands for more time to properly vet the tracts as well as more time to plan for the sale of the leases. Trust lands granted the request and the tracts are now in "pending" status. ●

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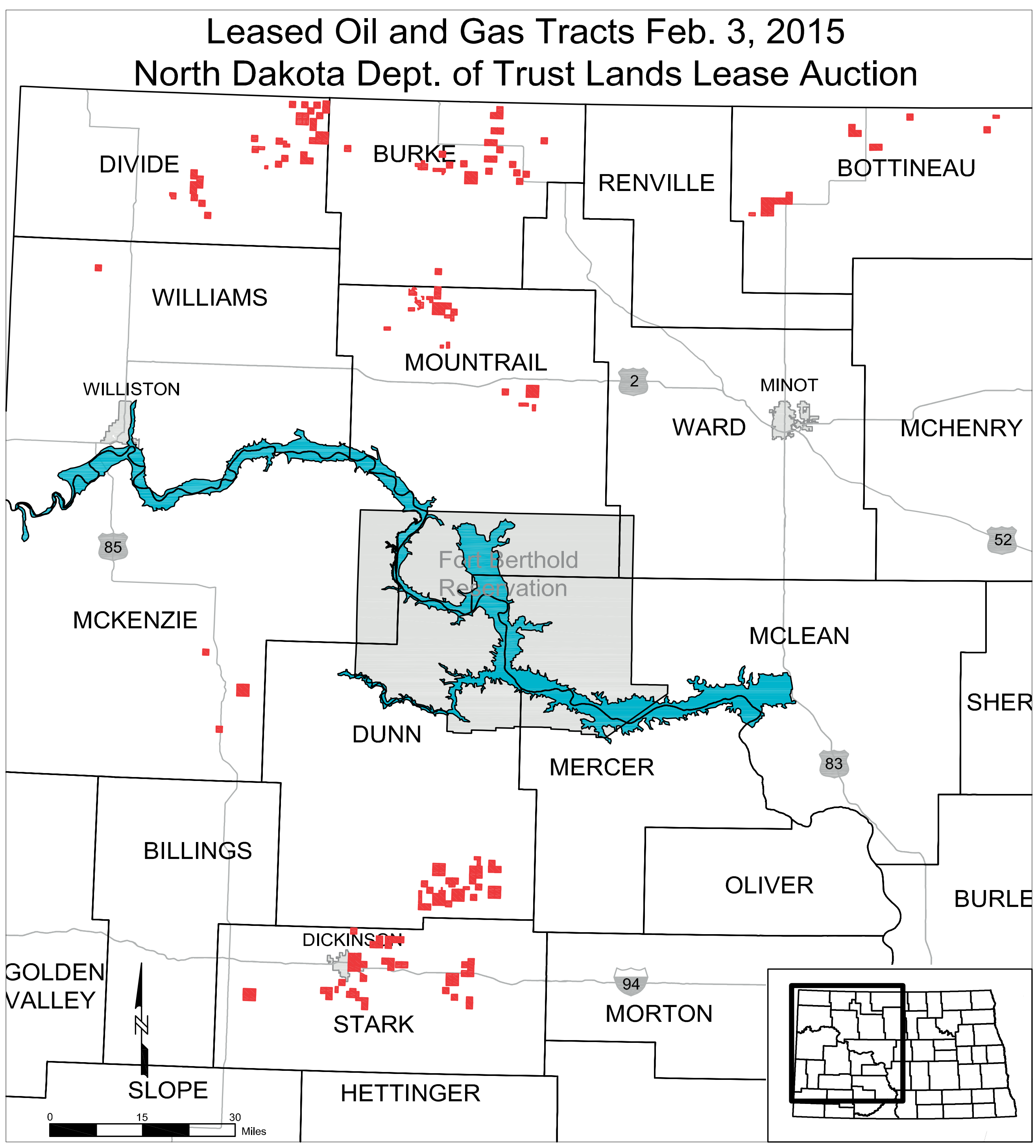

Feb. 3, 2015 Leased Auction Tracts

Source: North Dakota Department of Trust Lands (Tracts Not to Scale)

BIGHORN ENGINEERING