



100 West Broadway, Ste. 200 | P.O. Box 1395 | Bismarck, ND 58502-1395
701.223.6380 | ndpc@ndoil.org | www.NDOil.org

Interim Government Finance Committee

March 15, 2016

Chairman Delzer and members of the Committee, my name is Ron Ness. I am President of the North Dakota Petroleum Council. The Petroleum Council represents more than 450 companies involved in all aspects of the oil and gas industry including oil and gas production, refining, pipeline, transportation, mineral leasing, consulting, legal work, and oil field service activities in North Dakota.

My comments today reflect my visits, observations, and learnings from North Dakota oil industry experts over the past few months. Of course, like any market – this is all subject to change.

Starting in July of 2014, the dollar began its massive upswing which started to weaken the commodity markets. In October of 2014, the world oil inventories were surging as new oil production began coming on in the Oklahoma Scoop and Stack, the Niobrara in Colorado, the Utica in Ohio, the Powder River Basin in Wyoming, and production was surging in the Eagleford and Permian in Texas along with growing expectations of two million barrels per day in the Bakken. The world and markets were awash with oil. OPEC made their choice on Black Friday to stand-firm on production and just see how the rest of these oil plays can perform





at much lower oil prices. Throughout 2015, U.S. oil producers held firm, thinking the market would positively respond to reducing costs and keeping oil production flat; however, the markets did not respond favorable for everyone waiting for one another to cut production. Subsequently, markets do what markets do, and what was once a necessary correction in the market to reduce costs and lower the economic threshold of the Bakken has turned into a major downturn that dollar for dollar is likely worse than we saw in the 1980s. The size and magnitude of the Bakken has taken a long time to swing the pendulum the other direction and we are now seeing the dramatic impacts of \$30 oil that results in huge reductions of capital expenditures, employee lay-offs, sliding oil production, and falling oil tax collections. The industry response is now one of survival. Those with the financial strength will get stronger and likely grow while others have a rough road ahead as we await better market conditions. Oil production will now begin to slide quickly, although we have enough Bakken wells that I believe we will still maintain a high level of production of 850,000 – 950,000 barrels per day for the rest of this year. More jobs and economic activity will fall due to major reductions in spending and cost containment. It's going to be a rough 2016.

So, what's the upside? \$90 oil couldn't last forever, and the commodities market had an amazing run through the key development timeframe of the Bakken.





We were able to attract the capital, not only to explore and develop the Bakken but grow the critical infrastructure necessary for long-term production and growth.

The Bakken CEOs all still rank the Bakken as a best 1 or 2 asset in their portfolio, to me that means that the names may change but the Bakken resource is world-class, and it will be produced at least in the core areas where the wells are the really good. The challenge will be trying to determine what's the "new normal."

The economic efficiencies gained over the past year are substantial, and it will not likely take 180 rigs to keep pace, but how many employees will it take per well or pad, and can we grow our production to record levels again? These are tough questions, and the reality is that companies have to rebuild their balance sheets, convince the market and investors that investing in the Bakken is the right choice, work with the service industry to rebuild the exploration workforce, and then begin completing the drilled and uncompleted wells and eventually adding back more rigs and completions crews. There are positives in any downturn, the accountants sharpen their pencils, the engineers find the best solutions, and the investors force efficiencies; all of these issues make the Bakken play more economic in the long-run barring a massive over-correction in the price the other direction which could lead to inflationary actions the other direction. In the end, this is how markets work, we may not like them but we can't control them. North Dakota has to





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remain determined to maintain a positive business climate that attracts investments and tomorrow's workforce. Thank you, I would be happy to answer any questions.

