

THE CANARY IN THE BAKKEN



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High in the Rocky Mountains, the town of Trinidad, Colorado was once known for its coal production. During that period in the early 1900's, the science of gas detection was a canary in a cage. The physical makeup of a caged canary allowed for the detection of toxic gases alerting miners to get out.

This practice is now immortalized in Trinidad with a statue and museum exhibit, but is no longer used in modern practice. But, the cliché is. And today, when the sound byte media is proclaiming the sky is falling along with oil prices, no one is checking if the canary is still alive or just taking a nap.

Maybe all this oil price talk is for the birds since former governor of North Dakota and current Continental Resource board of director thinks oil and gas companies are more like ducks than canaries.

"Oil companies work three to five years out, they're securing mineral rights, moving rigs, getting capital. They're planning where they are going to be punching holes, not today, not tomorrow, but three years from now, five years from now," Schafer said. "Let's be aware of the competitive situation out there and understand that, you know, it's kinda like shooting ducks. You shoot ahead of them, you don't shoot at them. You shoot ahead."

Ducks, canaries, geese or bald eagles, oil prices are real and impacting people. Furthermore, energy futures appear dicey.



Ed Schafer and North Dakota Service Commissioner, Julie Fedorchek.

"The reality is the oil companies are going to extract our minerals resources where they can be the most efficiently for the least amount of cost," Schafer said. "And we need to be aware of that in North Dakota."

One thing that makes North Dakota unique to the energy industry is private mineral rights. Many countries and states have natural resources under BLM (or government-owned) land, whereas over 90% of North Dakota is private. This has created a business friendly environment where individual mineral owners negotiate and do business with an energy company directly.

With that said, private mineral rights could be the key to this ensuring oil companies will be extracting oil in North Dakota for decades to come. According to Schafer, the majority of the mineral rights, by most of the companies, were secured for up to 25 years.

Lynn Helms, director of the North Dakota Department of Mineral Resources, has a direct line to energy companies and their future drilling aspirations. According to Helms, the actual physical rigs are still in the state.

"All the information we have is the rigs that have left the rig count are still in North Dakota. They have not found a home somewhere else," Helms said.

"The emerging shale plays that would be competition for those rigs have even a higher break-even oil price than the Bakken. So on the positive side the hardware, the equipment is still in North Dakota. It's just been parked and is waiting for prices to come back and activity to come back."

Checking back with the canary and chicken little cliché. The rigs are still in the state, mineral rights in place, the hardware is still in the state, a price advantage and government-financed investments into infrastructure. It would appear the canary is alive and well. So why all the sky is falling energy talk in the media?

Instant gratification and ratings. Unfortunately oil and gas doesn't work like that. They are logistical precision money machines who are beholden to shareholders. Even if oil prices shot up to \$90 by this summer, new Bakken oil activity wouldn't begin until Summer of 2016.

"It's in the neighborhood of 11-12 months. So even if oil was back at \$90 in August we'd be looking at July or August of 2016 before rig count really responded significantly for that," Helms said.



"That's because oil companies have to raise the capital, put together their budgets, put together their drilling plans, their contracts and then go out and do the work."

Lynn Helms, director of the North Dakota Department of Mineral Resources

So it takes 11-12 months even with a quick rebound so that to work itself through the system and translate into a rig count."

Helms does stand behind his end-of-the-year comments of "your grandchildren's grandchildren will be working the Bakken."

In fact, because of this recent price drop, he believes it may be six or seven generations rather than the aforementioned five.

"Absolutely, I stand behind my quote last October. And that is a really important thing for people to grasp that even with what we are seeing today and over the past six months, which was a major price collapse, and now into the rebound phase, you have to look out at the long term," Helms said.

Helms continued interpreting the current state of the Bakken, indicating industry is now showing more signs of rebounding, but rollercoaster prices still have some hesitate.



Groundbreaking Ceremony held by the developers, MDU Resources Group, Inc. and Calumet Specialty Products Partners, L.P. The photo was taken on March 26, 2013 and the 375-acre site and refinery are scheduled to open 2Q after several months of delay.