

Market Update

PRODUCTS	9/10/18	9/11/18	9/12/18	9/13/18	9/14/18
WTI Crude Oil	67.54	69.25	70.37	68.59	68.99
Brent Crude Oil	77.37	79.06	79.74	78.18	78.09
Natural Gas	2.80	2.83	2.83	2.82	2.77

- [CME Group](#)

Headlines

North Dakota

- **North Dakota oil industry expresses pride as U.S. hits oil production milestone. [Bismarck Tribune](#)**
 - The United States is now the largest global crude oil producer, the U.S. Energy Information Administration announced Wednesday. Preliminary estimates show that U.S. oil production likely surpassed Russia and Saudi Arabia earlier this year, the EIA said. North Dakota, the No. 2 oil-producing state behind Texas, is mentioned by the EIA as one of the states that has seen significant growth. North Dakota produced an average of nearly 1.23 million barrels per day in June, the most recent data available. Ron Ness, president of the North Dakota Petroleum Council, said technology advancements helped the industry achieve the milestone. “This is something we’ve been anticipating for a few months, and we are very proud that our industry in North Dakota has contributed to this production achievement,” Ness said in a statement. In February, U.S. crude oil production exceeded Saudi Arabia’s for the first time in more than two decades, the EIA said. In June and August, the United States passed Russia in oil production for the first time since February 1999. In May, North Dakota set an oil production record with nearly 1.25 million barrels per day. July figures are scheduled to be released on Friday. Ness indicated the oil industry expects another record. North Dakota Gov. Doug Burgum has challenged the industry to produce 2 million barrels of oil per day. The North Dakota Pipeline Authority projects the state will ultimately produce between 2 million and 2.4 million barrels of oil per day, according to Director Justin Kringstad.
- **Two judges side with Meridian on Davis Refinery complaints. [Bismarck Tribune](#)**
 - The Two judges sided with Meridian Energy this week on legal challenges related to the Davis Refinery being built near Theodore Roosevelt National Park. South Central Judicial District Judge Bruce Haskell dismissed a claim Tuesday from the Dakota Resource Council, which challenged Meridian Energy’s zoning permit from Billings County. The environmental group alleged the conditional use permit granted in July 2016 is no longer valid because the company did not construct or begin operating the refinery within a year. The complaint cites Billings County zoning ordinances that require a conditional use to be instituted within a year of the permit’s approval. Meridian attorneys argued the county’s intent was for the one-year timeframe to begin after Meridian received a permit to construct from the North Dakota Department of Health Division of Air Quality, which was granted in June 2018. Haskell ruled after hearing arguments from both sides on Tuesday that Meridian made the more persuasive argument, finding that the conditional use permit is valid. Haskell said deference to the county commission factored into his decision. However, Haskell also said during the hearing that he’s concerned about substantial changes that Meridian made to the Davis Refinery plans after receiving the conditional use permit. “Under your theory, you could build a 40-story skyscraper

out there because you've got the permit," Haskell told attorneys for the company. Meridian Attorney Mark Vyvyan responded by saying, "I'm not sure I'd go that far," and pointed to an affidavit from Billings County Commission Chairman Jim Arthaud that indicated the county has been updated about changes to the refinery. "The county does not feel that those affect the validity of the permit," Vyvyan said. Haskell also said the county's zoning ordinance should be rewritten because the wording is open to interpretation. "It's just amazing to me that in a project of this magnitude that the CUP was issued with just an oral motion under a zoning statute or ordinance that is really pretty ambiguous," Haskell said. The judge's ruling dismisses the Dakota Resource Council claim. Attorney JJ England said the group is disappointed with the ruling and evaluating its options. "Our plan all along is to ensure that the refinery is constructed legally and in accordance with the law," England said after the hearing. Meanwhile, an administrative law judge recommended Monday that a complaint that seeks to halt construction of the Davis Refinery until it receives a Public Service Commission permit should be dismissed. Patrick Ward with the Office of Administrative Hearings reviewed a complaint from the Dakota Resource Council and the Environmental Law & Policy Center that argues Meridian Energy is trying to circumvent state law by not applying for a Public Service Commission permit. Ward concluded that the PSC does not have jurisdiction over the refinery because it will process 49,500 barrels of oil per day, 500 barrels below the threshold that triggers a PSC review. The environmental groups accused Meridian of attempting a "bait and switch," or building a smaller refinery without a PSC review with plans to later seek regulators' approval to expand after it is already constructed. The groups point to previous statements by Meridian about plans to build a refinery to process 55,000 barrels of oil per day. Meridian argued the complaint from the environmental groups should be dismissed because the company now plans to construct a refinery to process 49,500 barrels of oil per day. Ward concluded that the PSC does not have jurisdiction over the refinery because it will process 49,500 barrels of oil per day, 500 barrels below the threshold that triggers a PSC review. The environmental groups accused Meridian of attempting a "bait and switch," or building a smaller refinery without a PSC review with plans to later seek regulators' approval to expand after it is already constructed. The groups point to previous statements by Meridian about plans to build a refinery to process 55,000 barrels of oil per day. Meridian argued the complaint from the environmental groups should be dismissed because the company now plans to construct a refinery to process 49,500 barrels of oil per day. Ward wrote that the PSC does not have the authority to speculate about the company's plans for the future. He also wrote, if Meridian does plan to expand, the PSC would then acquire jurisdiction over the facility. Ward recommends that the complaint from the environmental groups be dismissed, along with other motions including a request for a cease-and-desist order. The three-member Public Service Commission asked Ward to provide a recommendation, but, ultimately, the commission will make the final decision. Opponents of the refinery, which is about 3 miles from Theodore Roosevelt National Park, have argued that the facility should have a comprehensive review. Preliminary site construction began in July. An appeal is still pending related to the health department's air quality permit for the refinery. In addition, a hearing with an administrative law judge is scheduled for Nov. 8 related to a State Water Commission permit for the facility.

Domestic

- **Brent reaches \$80 a barrel after fall in U.S. crude stocks. [Reuters](#)**
 - Oil futures rose on Wednesday, with Brent reaching \$80 a barrel, after a larger-than-expected drop in U.S. crude inventories and as U.S. sanctions on Iran added to concerns over global oil supply. Benchmark Brent crude LCOc1 futures rose 68 cents to settle at \$79.74 a barrel. The global benchmark earlier reached \$80.13 a barrel, its highest level since May 22. U.S. West Texas Intermediate (WTI) crude CLc1 futures rose \$1.12 to settle at \$70.37 a barrel, a one-week high. U.S. crude inventories fell by 5.3 million barrels in the last week, the U.S. Energy Information Administration said on Wednesday. Analysts had expected a decrease of 805,000 barrels. "Today's crude stock draw of 5.3 million barrels fell far short of the (American Petroleum Institute's) decline but was significantly larger than the normal draw of around 1 million barrels for this particular week," Jim Ritterbusch, president of Ritterbusch and Associates, said in a note. Also supporting prices were supply concerns surrounding U.S. sanctions on Iran. Since the spring, when the Trump Administration said it would impose the sanctions, traders have been focusing on the potential impact on

global supply. The sanctions will target Iran's oil exports from November. "Iran is increasingly becoming the preoccupation of the crude market. The last couple of weeks have seen the expected squeeze on Iranian crude flows taking shape, with overall outflows down markedly," consultancy JBC Energy said. Russian Energy Minister Alexander Novak on Wednesday warned of the impact of the U.S. sanctions against Iran. "This is a huge uncertainty on the market – how countries, which buy almost 2 million barrels per day (bpd) of Iranian oil, will act. The situation should be closely watched, the right decisions should be taken," he said. Novak said global oil markets were "fragile" due to geopolitical risks and supply disruptions, but added his country could raise output if needed. The Organization of the Petroleum Exporting Countries cut its forecast for oil demand growth in 2019 in its monthly report and said rising challenges in some emerging and developing countries could negatively impact global economic growth. OPEC said it expected demand growth of 1.41 million bpd in 2019, a 20,000-bpd downgrade from its previous forecast. Oil traders were also watching the progress of category 4 Hurricane Florence, which is expected to make landfall on the U.S. East Coast by Friday. Crude output will not be affected by the massive storm, but the evacuation of more than a million residents, as well as businesses, has prompted a near-term spike in fuel demand.

Oil and Gas Analysis

o Rotary Rig Count Summary

Location	Date	Week	+/-	Week Ago	+/-	Year Ago
United States	7-Sep-18	1048	0	1048	104	944
	14-Sep-18	1055	7	1048	119	936
North Dakota	7-Sep-18	53	1	52	1	52
	14-Sep-18	54	1	53	1	53
Canada	7-Sep-18	204	-24	228	2	202
	14-Sep-18	226	22	204	14	212
International	Aug-18	1008	11	997	56	952

- Baker Hughes

o Weekly Petroleum Status Report

Stocks (Million Barrels)			
	Four Weeks Ending		
	9/7/2018	8/31/2018	9/8/2017
Crude Oil (Excluding SPR)	396.2	401.5	468.2
Motor Gasoline	235.9	234.6	218.3
Distillate Fuel Oil	139.3	133.1	144.6
All Other Oils	465.4	457.4	481.1
Crude Oil in SPR	660.0	660.0	677.0
Total	1,896.7	1,886.6	1,989.2

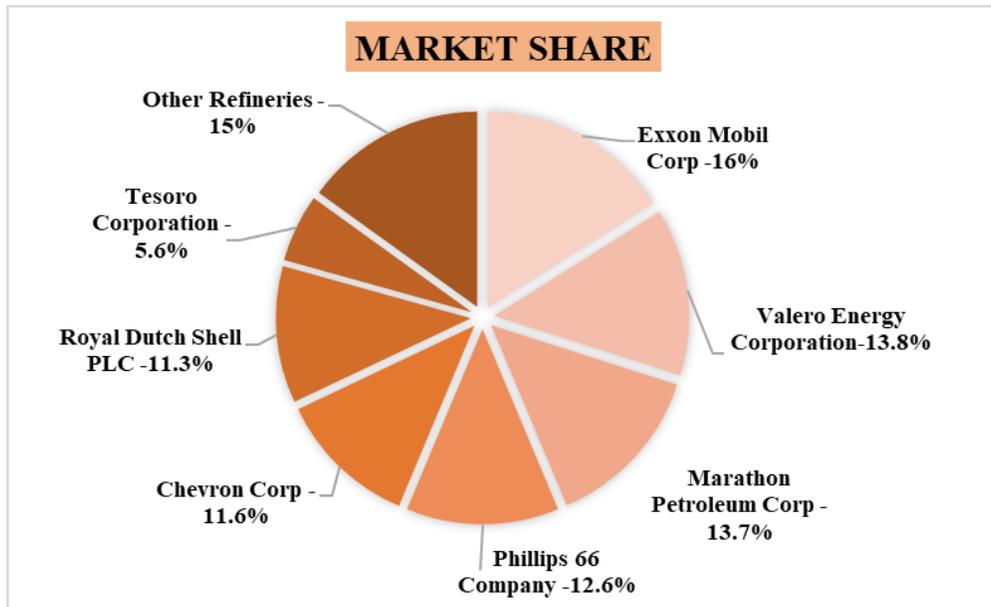
Products Supplied (Thousand Barrels per Day)			
	Four Weeks Ending		
	9/7/2018	8/31/2018	9/8/2017
Motor Gasoline	9,684	9,650	9,564
Distillate Fuel Oil	4,020	4,188	4,027
All Other Products	7,774	7,545	6,854
Total	21,478	21,382	20,445

Refinery Activity (Thousand Barrels per Day)			
	Four Weeks Ending		
	9/7/2018	8/31/2018	9/8/2017
Crude Oil Input to Refineries	17,741	17,772	15,934
Refinery Capacity Utilization	97.1	97.3	87.4
Motor Gasoline Production	10,247	10,209	10,143
Distillate Fuel Oil Production	5,395	5,345	4,653

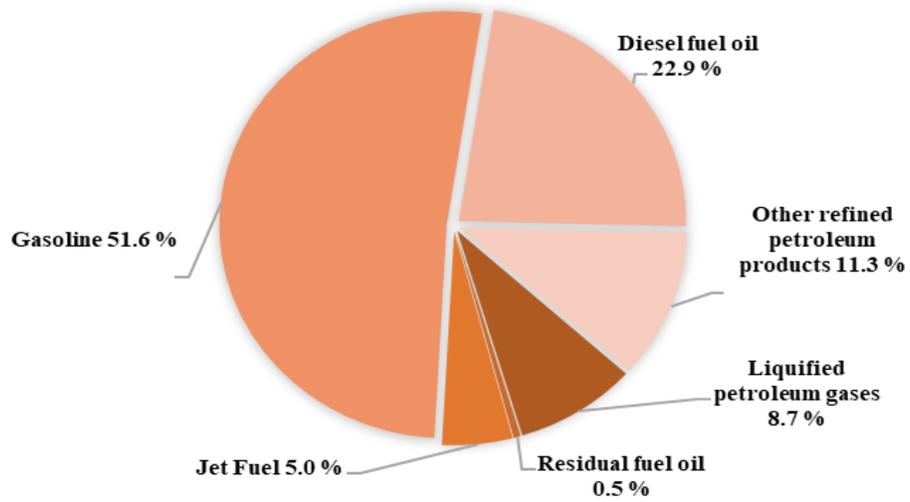
Net Imports (Thousand Barrels per Day)			
	Four Weeks Ending		
	9/7/2018	8/31/2018	9/8/2017
Crude Oil	6,010	6,424	6,873
Petroleum Products	-2,157	-2,466	-1,414
Total	3,853	3,958	5,460

- [EIA](#)

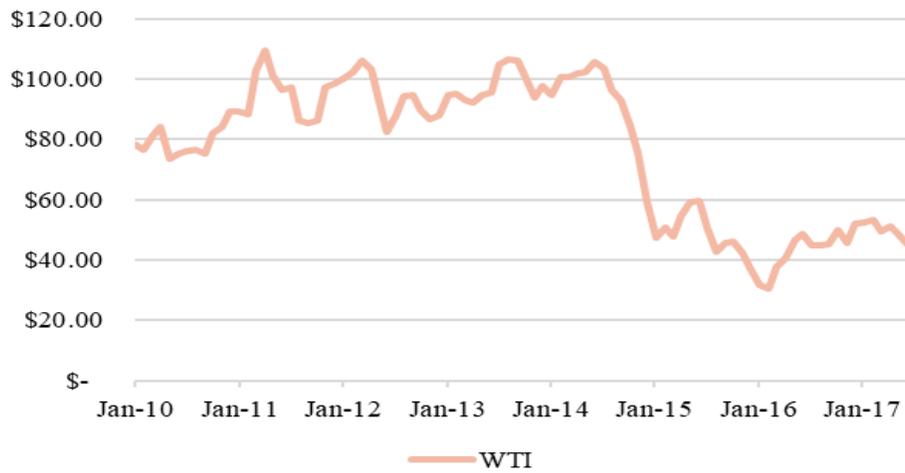
- **US Petroleum Refining at a Glance**



PRODUCTS AND SERVICES SEGMENTATION



WTI Monthly Spot Pricing



- [EIA](#)

o Key External Drivers

- o **World price of crude oil**
 - <http://markets.businessinsider.com/commodities/oil-price?type=wti>
- o **Demand from gasoline and petroleum bulk stations**
 - <https://www.reuters.com/article/us-usa-natgas-kemp/u-s-natural-gas-prices-rise-as-winter-stocks-look-tight-kemp-idUSKCN1BU1RK>
- o **GDP of mainland China**
 - <https://tradingeconomics.com/china/gdp>
- o **Trade-weighted index**
 - <https://www.investing.com/news/economy-news/top-5-things-to-know-in-the-market-on-friday-541066>
- o **Total vehicle miles**
 - <https://www.advisorperspectives.com/dshort/updates/2017/08/31/vehicle-miles-traveled-another-look-at-our-evolving-behavior>