



**DEPARTMENT of ENVIRONMENT
and NATURAL RESOURCES**

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South Dakota Sees Record Oil, Increasing Gas Production in 2008

South Dakota experienced record-breaking oil production and the state's highest natural gas production in more than a quarter of a century, according to final oil and gas production figures for 2008 compiled by the South Dakota Department of Environment and Natural Resources.

The state produced a record 1,696,842 barrels of total crude oil from 162 wells in 2008. The record amount surpassed the previous high of 1,668,197 barrels produced in 1988 from 207 wells. State oil production declined from the 1988 high to a low in 1999 of 1,100,249 barrels from 150 wells. Commercial oil production records have been kept since 1954 when oil was first discovered in Harding County (see Figure 1). Most of South Dakota's oil is produced in Harding County with lesser amounts produced in Fall River and Custer counties.

The number of producing oil wells has remained relatively consistent since the 1999 low (see Figure 1), but production is on the rise. This can be attributed to the use of horizontal drilling and enhanced recovery techniques in the Red River formation in Harding County, which occurs at about 9,000 feet below the land surface.

Horizontal drilling involves either drilling a new vertical hole to or re-entering an existing vertical oil well that already penetrates the producing formation. The drill bit is then turned so it moves horizontally into the formation. These horizontal holes, or "laterals," can be extended for thousands of feet. This exposes far more of the producing formation to the drill hole than in a conventional vertical drill hole, resulting in more oil production.

Enhanced recovery involves injecting air or water into the producing formation, which pushes oil to recovery wells. This technique is used to recover oil that would otherwise remain trapped in the oil reservoir rock using conventional production methods.

State natural gas production in 2008 totaled 1.1 billion cubic feet. This is the most produced in the state since 1.9 billion cubic feet was produced in 1982 (see Figure 2). Since 1979, all of the state's natural gas has come from three gas fields in southwestern Harding County. The gas is produced from a sandy zone in the Pierre Shale at a depth of about 1,500 feet below the land surface.

OIL AND GAS

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The increase in natural gas production is the result of a new field discovered by a company out of Texas, called Spyglass Cedar Creek, in an area southwest of Buffalo in Harding County. On the basis of seismic surveys, the company has drilled 15 producing wells and constructed a connecting pipeline, with two compressor stations, to the Williston Basin gas pipeline that runs from Montana to the Black Hills. These new wells have increased total state gas production from about 32 million cubic feet per month to about 150 million cubic feet per month.

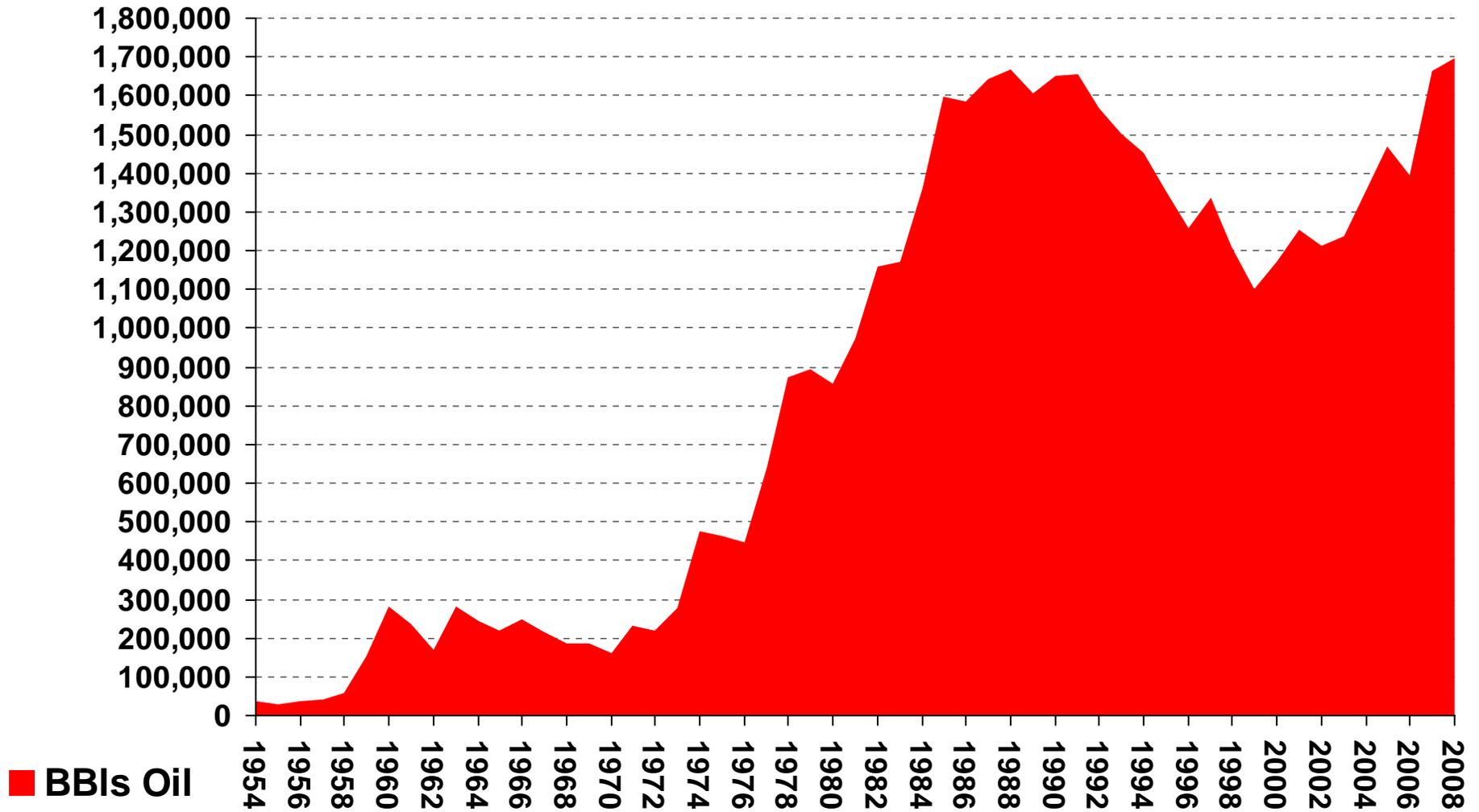
Governor Mike Rounds encouraged energy development in South Dakota when he unveiled his 2010 Initiative in October 2003. Within the last several years, legislation and new rules have been passed to promote oil and gas development and the state Department of Environment and Natural Resources is working on innovative ways to make new and existing geologic information and data readily available to oil and gas developers over the internet. Examples of new geologic information include a wall-size correlation chart of South Dakota's geologic formations, a new geologic map of the state and a series of 16 wall-size electric log cross sections, both east to west and north to south, at intervals across the state.

For more information about oil and gas activities in South Dakota, visit <http://denr.sd.gov/des/og/oghome.aspx>.

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Note: See attached Figures 1 and 2.

South Dakota Crude Oil Production (bbls) 1954-2008

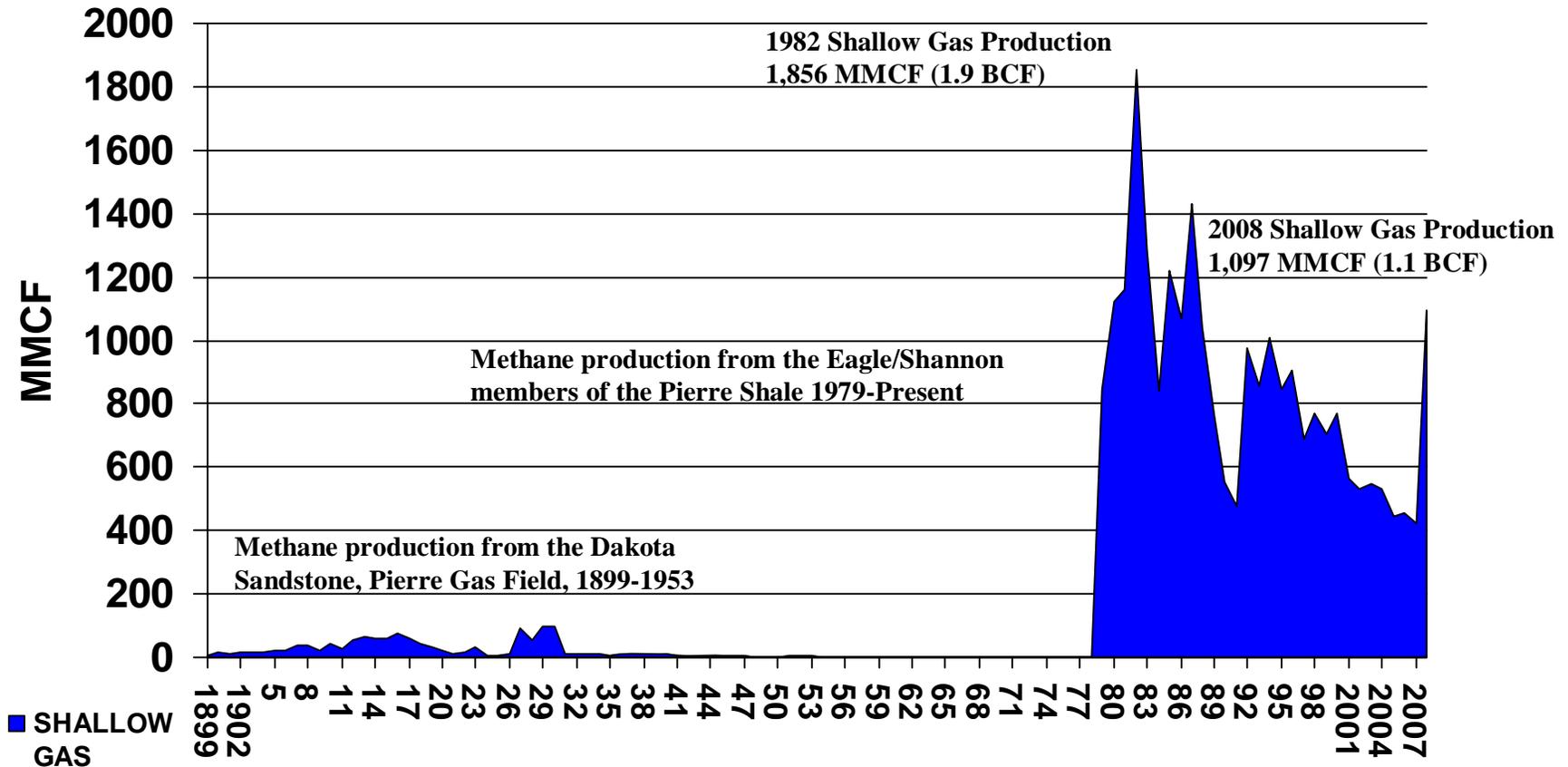


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Figure 1

South Dakota Shallow (Methane) Gas Production 1899 - 2008



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Figure 2