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2nd Quarter 2005

Wyoming
NATURAL GAS
PIPELINE AUTHORITY

News *Down the Pipe*

From the Director

As I sit at my desk on this August day I find it amazing that the current 12 month NYMEX natural gas "strip" (average price for each month over the next twelve months Sep '05 through Aug '06) is $9.42 per MMBtu (one MMBtu is approximately 1000 cubic feet of natural gas). This equates to a Wyoming price of approximately $8.23 per MMBtu over the next twelve months after adjusting for basis differential to Henry Hub of about -$1.19 over the same time period. Similarly, NYMEX crude oil prices for the next twelve months are trading at the unprecedented level of $66.95 per barrel.

While crude oil and natural gas prices are highly correlated to weather events locally (hurricanes, heat, cold etc.), and prices may dip as we enter the fall, world demand for crude oil and natural gas is ultimately the driver behind current commodity prices. The huge developing economies in both China and India will influence commodity prices for years to come.

Wyoming is uniquely endowed with energy resources – particularly natural gas and coal. Growth in production from these resources should continue for many years to come if access, environmental, and human capital issues can be managed in a balanced and efficient manner. This growth in production, coupled with higher commodity prices, should enable the Wyoming legislature and other Wyoming elected officials to begin laying the groundwork for what current and future generations can expect in terms of infrastructure development, employment and economic prosperity within the state.

I encourage you to visit our website www.wyopipeline.com frequently. Our meeting of August 30th at 10 am at the Wyoming Oil and Gas Conservation Commission auditorium should be informative as pipeline companies roll out their thoughts on where future pipeline infrastructure within the State and region makes sense. I hope you can join us.

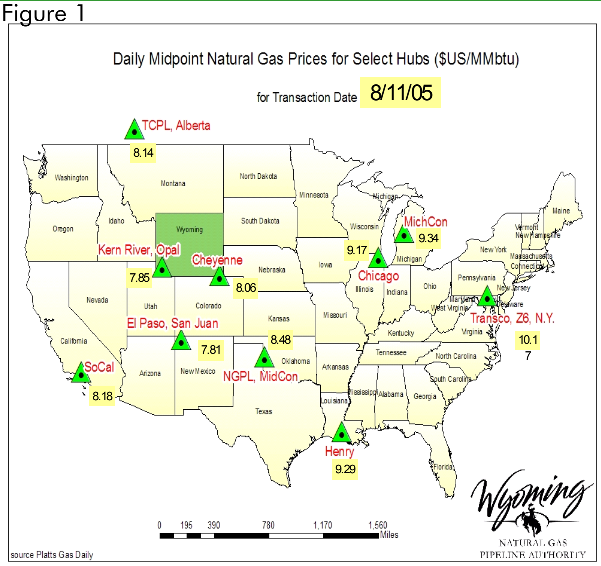
– Bryan Hassler

Website Update

If you checked out the 'News & Hot' link on our website you would have found that we are now posting a number of daily updates regarding total export capacity, regional hub pricing information, and market futures. These are good tools for examining market dynamics and estimating the flow of gas from producer to consumer.

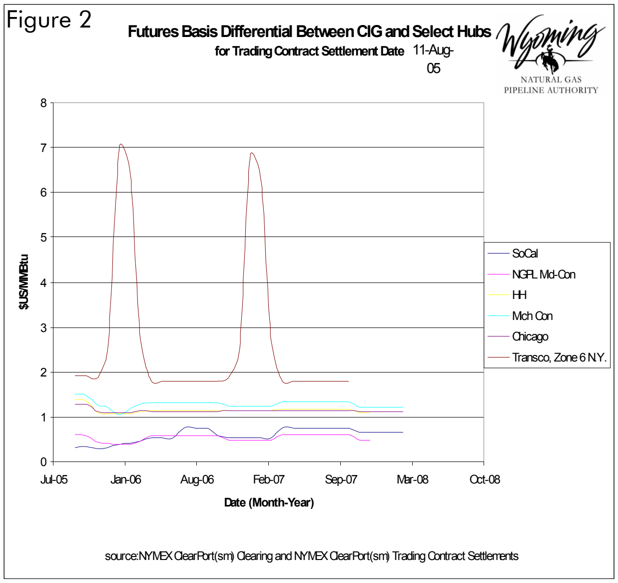
When looking at the regional daily pricing hub schematic, keep in mind that gas wants to move preferentially from a low priced hub to a higher priced hub.

Figure 1



In the snapshot above (Figure 1) of spot prices on August 11, 2005 it is pretty easy to see that there is a dividing line in prices along the Mississippi River where prices in the West trade between $7.85 and $8.48 per MMBtu and prices to the East trade between $9.17 and $10.17 per MMBtu. The consuming Midwest and Eastern regions of the United States are demanding ever increasing amounts of energy and there simply isn't enough pipeline capacity in place to reach those regions from the Gulf Coast or the Rocky Mountain region. This is especially troublesome for those areas of the country when one looks at forward basis differentials between the Rockies (CIG) and other pricing points (Figure 2). The differential between Rockies prices and Transco, Zone 6 (reflective of

Figure 2



New York City prices) is expected to grow to as much as $7 per MMBtu in the winter time. The differential between Rockies prices and markets in the Chicago and Michigan areas is expected to exceed $1 per MMBtu for some time to come. That said, we believe there is a necessity and adequate incentive to promote construction of incremental pipeline capacity to support growing production within the State and Rocky Mountain region and point that growing productive capacity towards the major consuming regions of the country – the upper Midwest and Northeast.

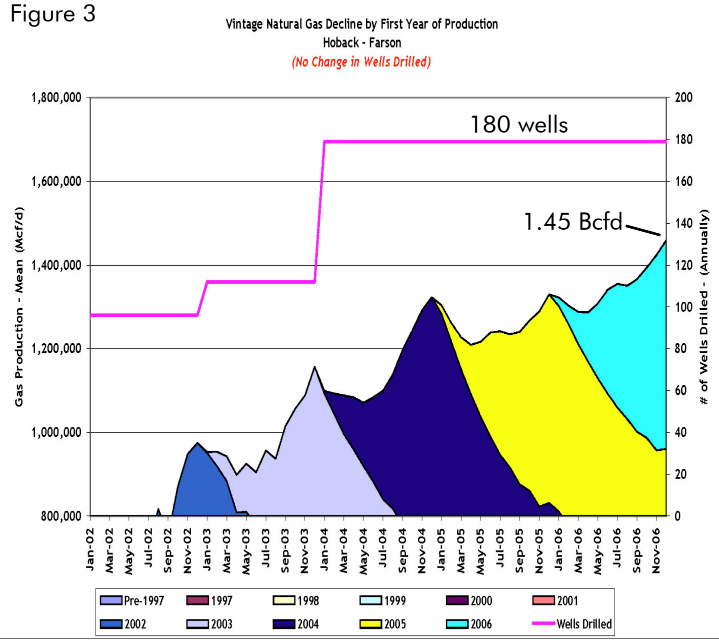
Continue to check out our website for market updates and forecasting!

Production Forecasting

As we monitor the market we are also making an effort to predict, scientifically, the future potential of Wyoming's gas producing regions. There is a direct correlation between growth (or decline) in production and rig activity. When areas of the state are tied up in Environmental Impact Statement (EIS) reviews for extended periods of time, production will decline – especially if those areas are subject to a moratorium on drilling. Similarly, if drilling activity in a region is increasing, production tends to increase accordingly. This is probably most notable in the Jonah/ Pinedale Anticline area. Some detailed work we have been doing indicates that a typical well in this area will produce about 3,000 Mcfd in its first month of production and will produce somewhere between 4 and 6 billion cubic feet of natural gas over its lifetime. Figure 3 illustrates the number of wells drilled in this area historically (red line/right axis) and the corresponding growth in production associated with wells drilled in the area by year (colored bands). We have taken the liberty of utilizing our "type well" to project what production will look like in 2005 and 2006 if roughly 180 wells are drilled in the area each year (see Figure 3, page 3). Production grows in each year resulting in a year end 2006 exit production rate of approximately 1.45 Bcfd. If the number of wells drilled increases by 20% in calendar years 2005 and 2006 then production at the end of 2006 as a result of the increased rig activity is closer to 1.65 Bcfd – a 200 MMcfd increase (see Figure 4, page 4). If one assumed that natural gas prices over the next twelve months were going to average $8 per Mcf, the incremental increase in revenue to the State's interest from just this one area could be as much as $105 million when federal and state royalties, severance taxes and ad valorem taxes are taken into account!

A 20% increase in drill rig activity = an incremental increase in revenue to the State of $105 million for just the Jonah/Pinedale Anticline region

Figure 3

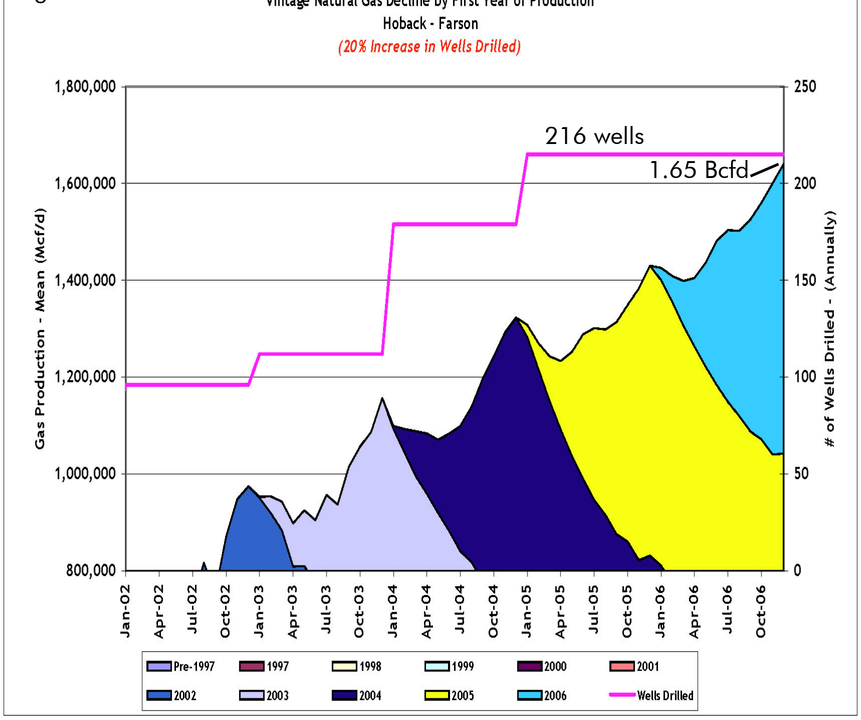


Production Forecasting, cont'd

This does not take into account the incremental revenue potential associated with new employment and economic development as a result of incremental drilling.

This is not to say that accelerated development is always good or practical but that if such does occur, there are development dollars that can be funneled back to communities to assist in building Wyoming's cultural and economic future.

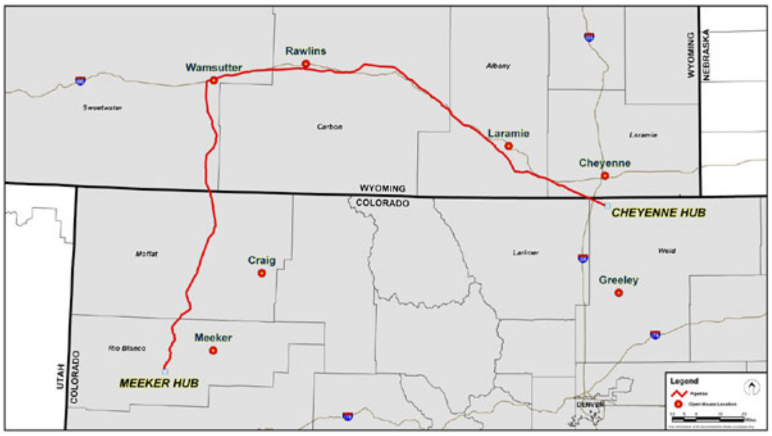
Figure 4



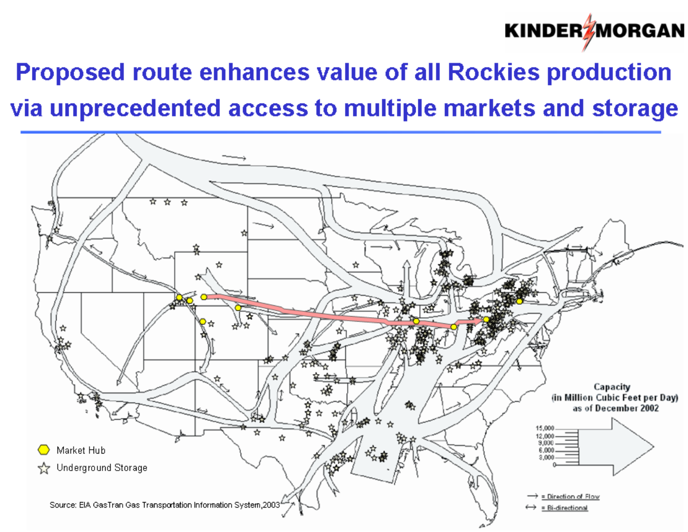
We are in the process of expanding our detailed basin work to better understand the resource potential in each county and basin and better account for future revenue potential associated with oil and natural gas development within the State.

New Pipeline Activity

EnCana has received a certificate from FERC allowing them to build their Entrega pipeline from the Piceance Basin in northwest, Colorado to Cheyenne. However, Entrega plans to build their pipe in two phases: Phase I will result in construction of a 36 – inch pipeline from Meeker, Colorado to Wamsutter, Wyoming and should be complete by year end 2005. Paralleling this pipeline will be a new 24 – inch pipeline that Wyoming Interstate will build. This will undoubtedly put downward pressure on natural gas prices in western Wyoming (especially in the summertime) as no incremental pipe will be built in the short term from Wamsutter to Cheyenne to accommodate this new Colorado production. Phase II proposes the construction of a 42 – inch pipeline by Entrega from Wamsutter to Cheyenne. This line could accommodate up to 2 billion cubic feet of natural gas per day and will be necessary to move growing southwest Wyoming supplies as well as northwest Colorado supplies to markets in the east. *The problem is that Entrega has not committed to a time schedule to construct Phase II of their pipeline project.* The Wyoming Natural Gas Pipeline Authority has been lobbying Entrega and other pipelines to build or allow the WPA to build this necessary Phase II segment of pipeline infrastructure to assure that natural gas prices do not degrade in Wyoming.



Additionally, Kinder Morgan has announced a proposal to build what they are calling their West to East project from Cheyenne, Wamsutter or Opal to delivery points in the Midwest and the Northeast. While other competing projects will most assuredly arise over the coming weeks (many of which will be discussed at our August 30 meeting) this $3 billion plus venture appears to have producer and market support.



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