

## What's Inside:

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- New Pipeline Activity
- Legislative Suggestions

3rd Quarter 2005



# News *Down the Pipe*

## From the Director

A lot has occurred in the energy world since the Wyoming Natural Gas Pipeline Authority's last newsletter. Two category 5 hurricanes blasting onshore, \$70/Bbl crude oil, \$14.50/MMBtu natural gas, \$3.00/gal gasoline . . . the list could go on and on. Prices indicate that the world's energy consumption sits precariously in balance with "available" supply and that events thousands of miles away can affect energy commodity prices in Wyoming and throughout the world. World demand for crude oil and natural gas is growing most aggressively in China and India – developing countries with populations in excess of 1 billion people, respectively.

Wyoming's tremendous natural gas, crude oil and coal reserves will factor significantly in this country's energy future. In this newsletter, we focus on:

- 1) Price forecasting and its importance in defining Wyoming's future – especially as it relates to the upcoming budget session.
- 2) Changes in our website and how they can keep you better informed about prices, capacity and market drivers.
- 3) The Wyoming Natural Gas Pipeline Authority's support of the 2 billion cubic feet per day (Bcfd) Kinder Morgan/Sempra Rockies Express project and its importance to Wyoming as well as to consumers in the upper Midwest and Northeast portions of the country.
- 4) Legislative suggestions that would enhance our ability to continue support of major pipeline and pipeline related infrastructure.

- Bryan Hassler

## Price Forecasting

Last year at this time, the Consensus Revenue Estimating Group (CREG) had forecast natural gas prices in Wyoming for 2006 and 2007 at \$4.25/Mcf. This year, that forecast has been increased to \$7.00/Mcf in 2006 and \$6.00/Mcf in 2007. The "market forecast" (what could be achieved via a financial hedge in the marketplace) calls for prices of \$9.12/Mcf in 2006 and \$7.78/Mcf in 2007.

To put the importance of solid forecasting in perspective and address the revenue impact of price changes to the State of Wyoming the following table has been prepared (Please note that the table illustrates annual impact of prices. To address biennium revenue the figures in the heart of the table would have to be doubled.):

The following assumptions were made in preparing the table above:

- 1) Wyoming produces 4.3 bcfd of saleable methane.
- 2) 67% of natural gas produced in the state are from Federal lands.



- 3) 7% of natural gas produced in the state are from State lands.
- 4) 26% of natural gas produced in the state are from Fee lands.

5) Severance taxes are 6%.

6) Ad valorem taxes are 6%

As you can see, the numbers add up quite rapidly at higher prices. Conversely, if pipeline infrastructure is not developed in a timely manner, prices can degrade quite rapidly and the State's revenue opportunities can erode. The Wyoming Natural Gas Pipeline Authority's mission remains steadfast and we will continue promoting infrastructure capable of moving growing Wyoming and Rockies supplies to value added markets.

While CREG's forecast remains conservative, we would urge you to anticipate revenues substantially higher than those forecasts would imply. However, new infrastructure is needed in the 2007-2008 timeframe or gas on gas competition similar to that seen in 2000 could return.

Price Per MMBtu	Severance (6%)	Ad Valorem (6%)	State Royalty (12% on 7% of Minerals)	State Share of Federal Royalty (50% of 12.5% Royalty on 67% of Minerals)	Annual Total (17.3%)
\$5	\$470,850,000	\$470,850,000	\$65,919,000	\$328,614,063	\$1,336,233,063
\$7	\$659,190,000	\$659,190,000	\$92,286,600	\$460,059,688	\$1,949,632,900
\$9	\$847,530,000	\$847,530,000	\$118,654,200	\$591,505,313	\$2,405,219,513
\$11	\$1,035,870,000	\$1,035,870,000	\$145,021,800	\$722,950,938	\$2,939,712,738
\$13	\$1,224,210,000	\$1,224,210,000	\$171,389,400	\$854,396,563	\$3,474,205,963

Note: \$1.97 per MMBtu was the August 2000 price as a result of gas on gas competition due to restricted pipeline capacity

## Suggested Legislative Changes

We are excited by the opportunities the WPA has to maximize revenues from Wyoming natural gas, and specifically support a pipeline to higher value markets in the eastern U.S. The value proposition of such a pipeline to the State is tremendous and will mitigate price degradation as new supplies enter the market place. Below are four changes to the Authority's legislation that we believe will be necessary to support future projects.

**Increase WPA bonding capacity from \$1 billion to \$3 billion.** When the WPA's legislation was revised to allow for up to \$1 billion in bonding authority, the largest project envisioned called for construction of up to 1,000 miles of 36 inch pipe to Chicago at an approximate cost of \$1 billion. Kinder Morgan's pipeline project will have a length of almost 1,700 miles from Cheyenne to Clarington, Ohio and is expected to cost \$3.5 to \$4 billion. This will be on top of the estimated \$700 million to develop infrastructure within the State from Opal to Cheyenne. Three billion in bonding authority will allow pipeline companies to engage the WPA to finance 100% of their debt needs which creates cost efficiencies that cannot be achieved if a company has to engage multiple financiers. Additionally, CO2 and crude oil products pipeline needs within the State could push the need for bonding capacity over current levels if those projects come to fruition.

**Expand State Treasurer's investment authority to invest in WPA bonds from funds other than just the permanent Wyoming Mineral Trust Fund (WMTF), as is currently limited in Wyoming Statute 37-5-206.** The Treasurer has made a specific request that she be allowed to invest in WPA bonds over a wider range of accounts she manages in order to diversify the States investment portfolio. Currently, legislation allows for investment in WPA bonds to occur only from the WMTF.

**Authorize a \$50 million State loan to the WPA to provide for credit security required to procure pipeline capacity in the WPA's name.** The loan would be repaid over the next ten years from a surcharge paid by participating shippers and or excess funds collected above and beyond the cost of capacity due to wide differentials between Wyoming and the North East market place. One of the principal benefits derived from WPA participation in the Rockies Express pipeline is to provide for large scale project development in an efficient manner. Without the proposed change, that benefit could probably not be pursued. Smaller producers in Wyoming do not necessarily have credit ratings and often lack the cash or the unencumbered borrowing ability to post deposits. The debt cost of a project is principally determined by the credit quality of the shippers, which means pipelines will not ordinarily accept long-term contracts from un-rated shippers without large deposits. To address that problem and assure that 25% of Wyoming's revenue derived from natural gas (severance, ad valorem, royalty taxes) will have access to premium markets long term, the WPA proposes to contract for up to 200,000 Mcfd of capacity on Rockies Express. The WPA would then, in turn, make portions of this 200,000 Mcfd available to in-state producers as well as provide an outlet for state and federal RIK gas.

**Finally, to more accurately reflect our authority, change the name** from the "Wyoming Natural Gas Pipeline Authority" to the "Wyoming Pipeline Authority".

We believe that the changes advised above will enable the Authority to support future projects, natural gas, CO2, crude, coal product and liquids pipelines in a significant, economically efficient and value added manner that will provide long lasting benefits to the state.



# Website Changes at [www.wyopipeline.com](http://www.wyopipeline.com)

At the WPA, we are constantly striving to meet the needs of our clientele. Recently, we reorganized the website home page in order to display market sensitive information daily. We also simplified the site so that you can find information easier.

Tabs at the top of the homepage denote links to presentations the WPA has delivered or received, daily pipeline export/import capacities, and a description of natural gas pipeline projects in Wyoming and the Rocky Mountain Region.

To really appreciate the dynamics of the natural gas business and how Wyoming is affected, it is imperative to view the market on a continental scale.

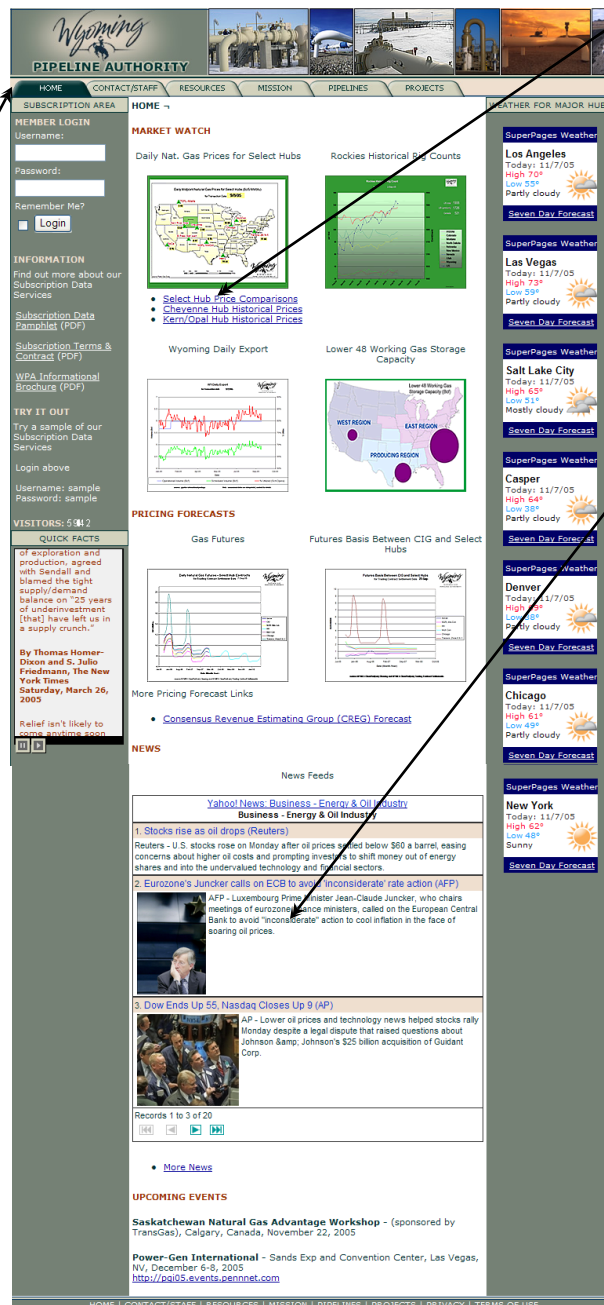
The market statistics available on the home page are organized by select hubs across the United States and Canada. On the right hand side of the page you will note weather forecasts for each of these hubs - a leading indicator in natural gas demand.

There are numerous graphs on the homepage that demonstrate price and volume information - click on one to see today's report. The WPA

provides a graph of the basis between Opal and Cheyenne to the Henry hub. Natural gas futures for select hubs and the basis to Colorado Interstate Gas Pipeline are also plotted. The futures plots provide an indication of where the market perceives prices will be in the future.

Towards the bottom of the homepage there is an RSS News Feed (a news aggregator) that displays daily news regarding the oil and gas industry. If you are a market watchdog, this should be another tool in your toolbox.

A quick glance a couple times a week at this website will give you a good understanding of the market's performance. Using this information will allow you to see the issues, providing a better vision for enhancing Wyoming's natural gas export capacity.



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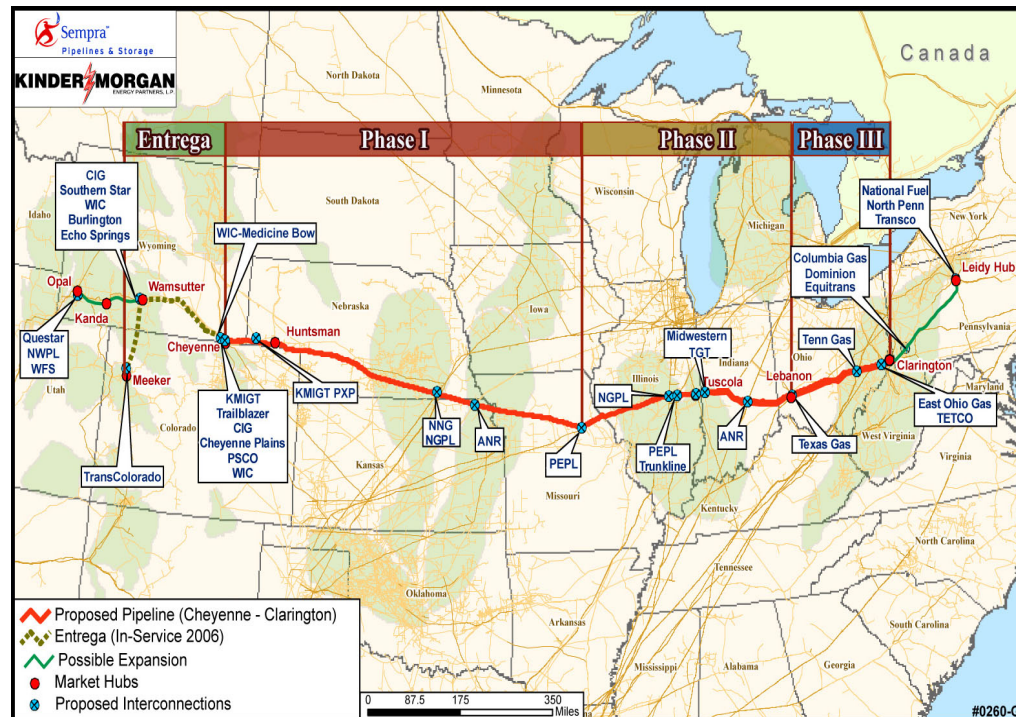


## New Pipeline Activity

Kinder Morgan Energy Partners has proposed a 'West to East' pipeline from Wyoming to Ohio. That pipeline is now referred to as the 'Rockies Express Pipeline' and Kinder Morgan is sharing ownership with Sempra Energy in a 2/3 and 1/3 agreement. These two companies approached the WPA requesting the Authority's

support of their project. After careful study and review of competing pipeline proposals, the Authority came to the conclusion that Kinder Morgan/Sempra's project represented the "best" ability for Wyoming natural gas to compete for existing and new higher priced markets without having to compete head-to-head with Mid-continent, Gulf Coast, and LNG supplies.

On October 25th, the WPA Board of Directors pledged support to the Rockies Express project and signed a memorandum of understanding with Kinder Morgan/Sempra to negotiate in 1) providing competitive financing for Rockies Express, 2) facilitating extension of the project to the Opal Hub, 3) a conditional commitment to capacity of up to 200 MMcfd to provide for aggregation of smaller producers and accommodate state and/or federal RIK gas, and



4) provide potential interim financing for the project's acquisition and/or construction of assets upstream of Cheyenne. Staged FERC Certificates will provide for: additional capacity between Wamsutter and Cheyenne by year end 2006; access to Mid-continent delivery points by December 2007; access to Tuscola or Lebanon delivery points in December 2008; and access to eastern Ohio delivery points by July 2009.

This initiative encouraged Encana Corp. to sell its subsidiary, Entrega Gas Pipeline Inc., to Kinder Morgan. The Entrega Pipeline Project is from Meeker, Colorado, to the Cheyenne Hub via Wamsutter. In addition, Encana has agreed to commit a significant portion of its Rocky Mountain gas production to the pipeline. Access to plants in southwest Wyoming including Opal will occur through Questar's Overthrust Pipeline.

## New Pipeline Activity cont'd

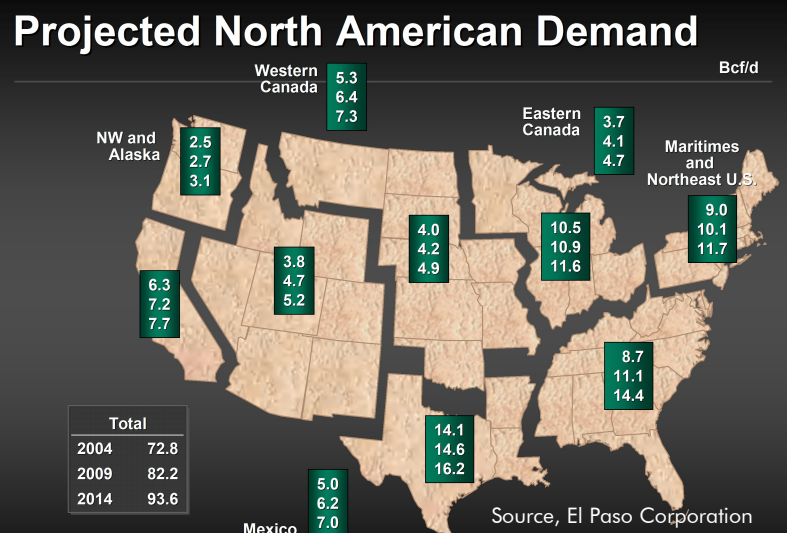


El Paso Corporation has also proposed building what they call their 'Continental Connector' - a 42 inch pipeline that will run from the Cheyenne Hub to Pugh, Alabama.

El Paso Corporation forecasts North American demand for natural gas will be on the order of 82 Bcf/d by 2009 (see chart below). The Continental Connector will provide a transport corridor for Rockies and Mid-continent product to reach the main trunk lines that begin east of the Mississippi River supplying the east and northeast markets as well.

El Paso's project follows existing rights of way and utilizes a substantial amount of the Enogex System owned by OG&E of Oklahoma. The project will compete with Texas, Gulf Coast, and LNG gas at its terminus in Alabama.

While this proposed pipeline extends the market for existing Cheyenne Plains shippers and Mid-continent producers, we believe that Kinder Morgan/Sempra's pipeline would more directly benefit Wyoming producers because of its intended route.



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