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News Down the Pipe

From the Director

As the Legislative session approaches, your understanding of the natural gas market is critical to the State's future revenue generation. This quarter's abridged newsletter highlights the major issues that drive the natural gas market such as existing and proposed pipeline infrastructure and pricing dynamics. Please thoroughly review and consider our recommendations. In advance, the WPA sincerely appreciates your support and hopes that you see the value in our efforts.

- Bryan Hassler

Legislative Recommendations

Although there have been several proposed projects for exporting Rocky Mountain region natural gas supplies, the

WPA believes that the Kinder Morgan/Sempra "Rockies Express" project represents the single best alternative in the marketplace today to move Wyoming natural gas into the higher demand/higher priced regions of the upper Midwest and Northeast sections of the country and provide for future expansion capabilities to the tune of 2.2 billion cubic feet of gas per day (Bcfd) of additional export capacity. This is a HUGE undertaking that will run almost \$5 billion to build (the largest pipeline project to be built in the lower 48 in the last 40 years) with a proposed in-service date by year end 2008. Every bit of committed capacity to this project will affect the final outcome and timing of mineral extractive valuation for the State of Wyoming. To date, the WPA has been unsuccessful at procuring sufficient credit support to make its capacity commitment viable. We urge you to consider and approve both the amendments to our legislation and a Constitutional amendment that would give Wyoming an ability to create infrastructure so critical to its future in the event private enterprise does not "pony up".

Key changes to our legislation (SF 0084) include the following:

- 1) Increase bonding capacity to \$3 billion from \$1 billion
- 2) Amend Treasurer's ability to invest in bonds outside of Permanent Mineral Royalty Trust Fund
- 3) Change name to Wyoming Pipeline Authority

Constitutional Amendment (SJ 0003):

Consider and approve sending for a general vote a Constitutional amendment that would allow the State to invest in works of internal improvement on pipeline related projects in addition to highways, water projects and airports already allowed by the Constitution.

Market Dynamics

Supply Outages and Mature Basins

Hurricanes Rita and Katrina curtailed as much as 10 Bcfd of natural gas this past fall (20% of all flowing gas in the lower 48 states). This represents almost 2.5 times the amount of natural gas produced in Wyoming. Today, 1.5 Bcfd of Gulf Coast production remains shut-in nearly five months after Rita struck the Louisiana coastline. Concurrently, traditional gas producing basins throughout the country continue to steadily decline. Wyoming is one of the last regions in the continental U.S. for meeting the nations insatiable hunger for natural gas.

Weather

In early December, temperatures were brutally cold across the country for a period of almost three weeks. Many were concerned that an early winter coupled with the Gulf outages could be disastrous for the country. Natural gas, an important feedstock to the petrochemical sector, became so expensive that many industries dependent upon this important feedstock were forced to curtail their operations. Natural gas storage levels, barely adequate going into the winter in a normal year were suddenly inadequate in an early winter where temperatures were much colder than normal in early December.

Market Dynamics cont'd

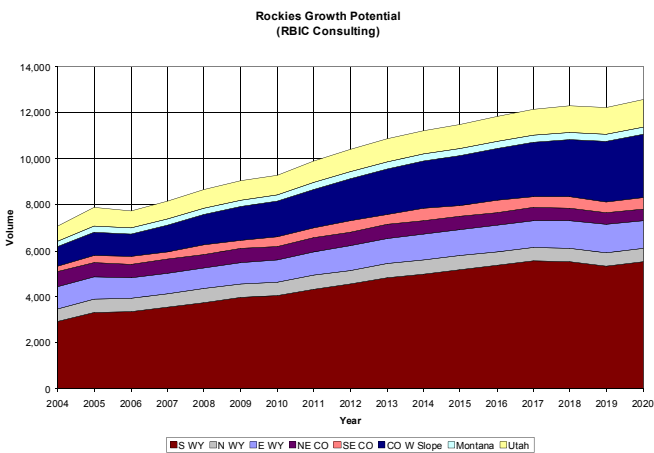
Conversely, since that early cold snap, temperatures have been warmer than normal across the country for a period of seven weeks. January temperatures were the warmest ever recorded. Storage levels now exceed those seen last year at this point in time and exceed the five year average by 529 Bcf. Although these events have provided a temporary band aid to the situation, a continued lack of planning and action will not bode well for the consumer in the near future.

Prices

Prices respond rapidly to extreme events in nature. Henry Hub natural gas prices peaked September 26, 2005 at \$15.22 per Mcf as hurricane Rita advanced on the Gulf. Prices peaked again on December 14, 2005 at \$15.40 as cold embraced the country with \$25 per Mcf being discussed if winter returned to normal conditions. In the Rockies, prices are driven by weather – especially in the winter time when heating

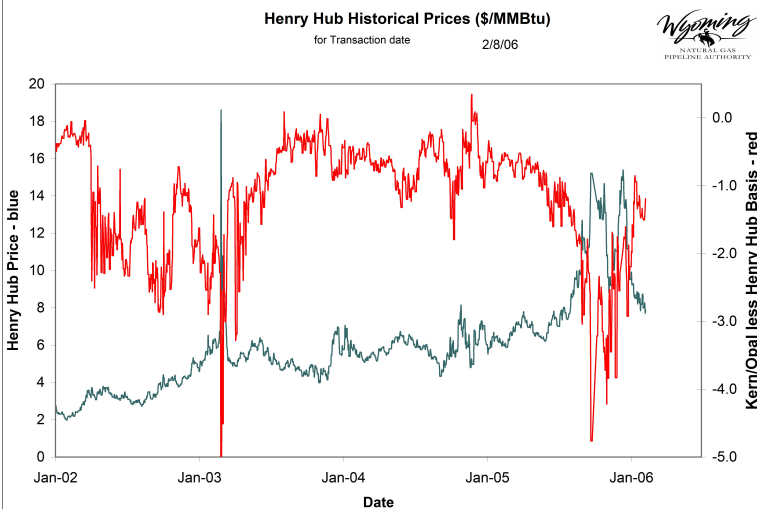
Production Growth

It is anticipated that natural gas production in Wyoming and the Rocky Mountain region will grow substantially over the next five to ten years (see graph below). If additional pipeline capacity is not built, prices will decline *dramatically* (as early as late 2007) as a result of gas-on-gas competition in the Rocky Mountain region.



What about Liquefied Natural Gas (LNG)?

In 2008, 1 Bcfd of LNG will hit the west coast and will most assuredly displace Rockies gas supply to California or 3/5 of Wyoming's current demand market. Gas on gas competition in the Rockies last occurred in 2002 and prices averaged \$2 - not economic to pursue new sources or maintain existing operations. During 2005, prices averaged \$7.03. The chart below illustrates Wyoming's revenue sensitivity to gas prices on an annual basis assuming 4.3 Bcfd of saleable gas. Future LNG projects, especially on the west coast, will only exacerbate Wyoming's efforts to enhance export capabilities thus retarding Wyoming's natural resource economy and associated services.



demand increases. In the months from April through October, when there is very little demand for natural gas in this region, natural gas is injected into storage or transported out on pipelines to other sectors of the country.

ESTIMATED ANNUAL STATE REVENUE BY NATURAL GAS PRICE (\$ Millions)

Price (\$/MMBtu)	Severance Tax (6%)	Ad Valorem Tax (6%)	State Royalty (13% on 7% of minerals)	State Share of Federal Royalty (50% of 12.5% Royalty on 67% of minerals)	Total
\$ 2	188	188	29	131	537
\$ 5	471	471	71	329	1,342
\$ 7	659	659	100	460	1,878
\$ 9	848	848	129	592	2,415
\$ 11	1,036	1,036	157	723	2,952