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March 17, 2005

Mr. John Spehar
Bureau of Land Management (BLM)
Rawlins Field Office
P.O. Box 2407
Rawlins, WY 82301-2407

RE: COMMENTS FOR THE RAWLINS DRAFT EIS/RMP

Dear Mr. Spehar:

The Wyoming Natural Gas Pipeline Authority (WPA) is pleased to submit to the BLM comments regarding the Draft Environmental Impact Statement (DEIS) for the Rawlins Resource Management Plan (RMP) dated December 2004.

We have compiled the following comments for your consideration prior to publication of the final EIS for the Rawlins RMP:

- **The DEIS allocation of 8,822 wells for the next 20 years is not sufficient to meet development and exploratory needs over the next ten years, much less the next 20 years, and will not maintain or grow current natural gas production rates nor will it assist in meeting the anticipated increase in demand for natural gas contemplated in the Energy Information Administration's *Outlook 2005*[1].** Wells experience a steep traditional decline curve after their first year of production; the steepness of the decline curve decreases with time representing a cumulative decrease in production per year. In 2002, the Rawlin's RMP area demonstrated an 18% decrease in production compared to the national average of 27%[2]. In order to maintain or grow current production within the Rawlins RMP area, more wells need to be drilled and brought on-line each year if demand based upon historic trends is to be adequately met. The last 4 years of annual production from new wells from the Rawlins RMP has averaged 21,464 MMcf[*]. If the BLM is supportive of maintaining historic production, then 9,333 wells will need to be drilled in the next

[1] *Annual Energy Outlook 2005, With Projections to 2025*, Energy Information Administration, February 2005
[2] Petroleum Information Corporation
[*] MMcf = 1 million cubic feet

10 years[3], assuming a 100% success rate. This leaves no room to exploit future reserves discovered via exploration efforts nor does it leave room for coal bed methane or unconventional resource recovery. For Wyoming to continue to exploit the mineral resource base in the Rawlins RMP area, at least 10,630 wells need to be allowed by 2014 - over the next 10 years - vs. the 8822 wells contemplated in the RMP over the next 20 years. We also suggest rather than designating the number of wells that can be drilled over a time frame, consider designating the number of drilling pads, taking into account new drilling technology that exists today and future technology that will be developed to allow for directional and horizontal drilling of incremental wells from existing well pads.

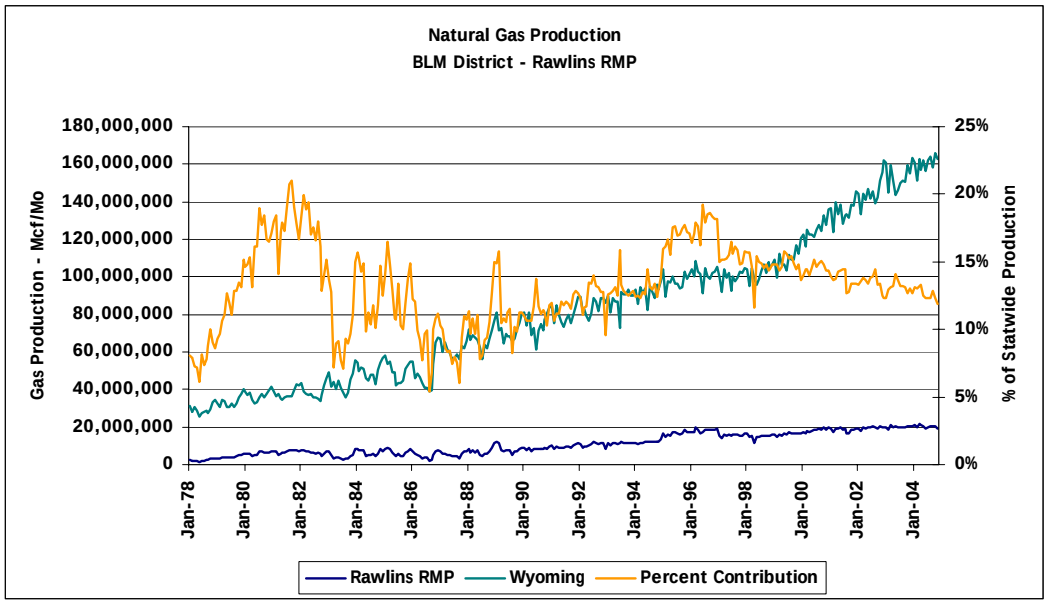
• **Successful drilling for oil and gas in the Rawlins RMP area is above the national average demonstrating that these resources can be harvested with higher than average reliability and predictability indicated by historic drilling.** Since 1997, 1,537 wells have been drilled within the Rawlins RMP area with a majority of these locations being completed in well-defined fields at a 90% success rate. Thirteen percent (13%) of the total wells drilled since 1997 have been exploratory with a success rate as high as 53%, discovering new resources. The average drilling success rate for exploratory wells in the U.S. from 1977 to 1996 is estimated at 18%.[4] Put another way, there is a higher chance of success (or probability) of finding hydrocarbons in the Rawlins RMP area than there is, on average, across the rest of the country. The resource base will ultimately need more than the 8,822 wells proposed if it is to be adequately explored and developed. We emphasize that the national consumption demand for natural gas is estimated to continue to increase by 1.8% per year or 0.4 Tcf[5] per year through year 2025[6]. By limiting access to natural gas prone areas like the Rawlins RMP has outlined, the United States will become more dependant on imports of natural gas in the future.

• Since 1978, 2,800 oil and gas wells have been drilled, 2,292 of those are producing. Past activity is not reflective of resource potential or future well activity especially between 1978 and 2002; natural gas prices were severely depressed in Wyoming and the Rocky Mountain region. Today the RMP area contributes to approximately 12% of Wyoming's total natural gas production or 657 MMcfd for all producing wells. Crude oil production in the area is approximately 11% of Wyoming's total oil production or 16 MBO[7] per day. The economic value of crude oil production from the Rawlins RMP at today's prices ($50/BO) is $292 million per year for oil of which approximately $13.9 million is given to the federal

[3] WPA's predictions for the next 10 years are based upon calculations for a reasonable time period considering the statistical and historical variations and assumptions defined.
[4] O. Iledare and A. Pulsipher, *Trends in U.S. Exploration, Reserves Warn of Trouble*, World Oil, February 1999, Table 2
[5] Tcf = 1 trillion cubic feet
[6] *Annual Energy Outlook 2005 ,* page 95
[7] MBO = 1 thousand barrels of oil

government in royalties - $6.9 million is returned to Wyoming, $16.7 million is collected by Wyoming in the form severance taxes, and $18.2 million is collected by Wyoming counties in the form of ad valorem taxes[8]; $1.26 billion per year for natural gas of which approximately $59.8 million is given to the federal government in royalties - $29.9 million is returned to Wyoming, $72 million is collected by Wyoming in the form severance taxes, and $78.5 million is collected by Wyoming counties in the form of ad valorem taxes[9]; a significant revenue stream for the State of Wyoming and the federal government. See Figures 1 and 2 below:

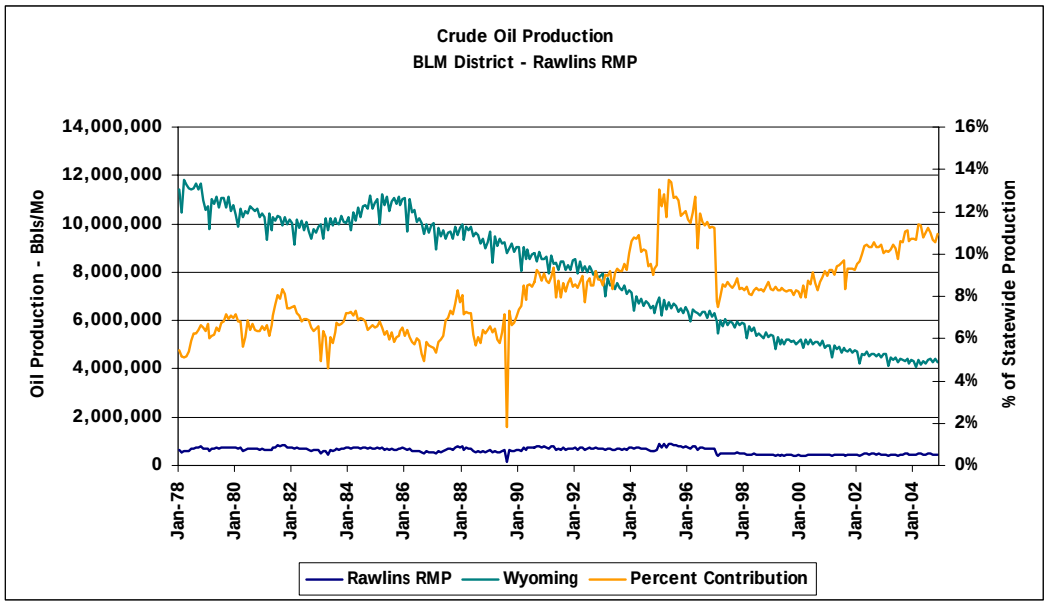
- Figure 1



[8] Assumptions: $292 million x 0.38[Federal property in the RMP] = $110,960,000 x 0.125[Federal royalty] = $13,870,000 x 0.5[federal return to State] = $6,935,000; $292 million x 0.62[private and state property in the RMP] = $181,040,000 + ($110,960,000 x 0.875[remaining Federal royalty percentage]) = $278,130,000 x 0.06[state severance tax] = $16.7 million and $278,130,000 x 0.06538[year 2004 median of all mill levies by county within the RMP defined area] = $18.2 million

[9] Assumptions: $1.26 billion x 0.38[Federal property in the RMP] = $478,800,000 x 0.125[Federal royalty] = $59,850,000 x 0.5[federal return to State] = $29,925,000; $1.26 billion x 0.62[private and state property in the RMP] = $781,200,000 + ($478,800,000 x 0.875[remaining Federal royalty percentage]) = $1.2 billion x 0.06[state severance tax] = $72 million and $1.2 billion x 0.06538[year 2004 median of all mill levies by county within the RMP defined area] = $78.5 million

Figure 2



• **The Rawlins RMP area future production will most likely come from unconventional gas production or coal bed methane development.** Although the DEIS generally addresses coal bed methane production, it should be noted that the resources for this region have significant potential. For example, Hanna-Carbon Coal Fields speculative resource volume is approximately 6,100 Tcf[10]. The coal bed methane production through January 2002 for the entire RMP area was 0.003% of the speculative resource; a mere fraction of a percent that could be generated to meet the increasing national energy demand.

• **Pipeline infrastructure development may be compromised.** Withdrawals of lease acreage increased from 7,660 in Alternative 1 (status quo) to 14,450 in Alternative 4 (preferred), as listed in Volume 1, Table 2-2, page 2-79. This is an additional 6,760 acres. No significant pipeline construction is anticipated in these areas based on existing natural gas development. However, Rex Lake and Big Hollow Fields (Laramie Plains Lakes withdrawal) as well as the G.P Dome, O'Brien Springs, and Ferris East Fields (Blowout Penstemon Site withdrawals) recover crude oil.

• **Restrictions need to be decreased and the total development acreage should be increased compared to the status quo.** Total leaseable minerals remain the same from Alternative 1 to Alternative 4 but greater restrictions have been placed on 45,280 acres. More specifically, there will be a 3,350 acre loss in Category A

[10] John B. Curtis, *Potential Gas Supply of Natural Gas in the United States, Report of the Potential Gas supply Committee (December 31, 2002)*, Colorado School of Mines, Potential Gas Agency, April 2003, page 199

acreage, a 41,930 acre loss in Category B lease acreage and an increase of 34,450 acres of Category C and 10,830 acres of Category D acreage. BLM added more restrictions that may or may not be valued or warranted. These restrictions include areas where overlapping minor constraints would severely limit development of fluid mineral resources. If Wyoming is preparing to meet the market demand for natural gas, then the BLM preferred alternative is headed in the wrong direction with these greater restrictions.

- **The Economic Impact Analysis Methodology underestimates the economic assumptions for oil and gas production.** Natural gas is estimated to maintain a $5/Mcf or better price for the foreseeable future. In fact, Henry Hub settlement prices for natural gas for April delivery were $7.19 per MMcf on March 16, 2005. Oil is more than likely to maintain a price in excess of $25/BO[11] (crude oil prices settled at $56.46/BO today for April, 2005 delivery).

- **Increasing restrictions on existing leases, decreasing lease acreage, and underestimating the drilling quota for the next 10 years does not meet the intentions of the National Energy Policy and the Presidential Executive Orders mandating increasing domestic production and lessening dependence upon foreign oil[12].** To reiterate, it is suggested that North American natural gas demand will grow 1% annually through 2025[13]. In the lower 48 states, production declines from existing reserves have gradually become steeper, with current base decline rates of over 25% in the first year. In order to offset these declines, new wells will be required to develop additional resources[14]. Furthermore, high drilling activity levels in the outlook are necessary for new production to meet demand and also discover new resources for future development. Even at a projected high drilling level, annual reserve additions and the reserves-to-production ratio (R/P) are expected to gradually decline. The R/P ratio is the number of years that a given resource would last if produced at the current consumption rate and is a useful index to measure how fast a resource is being depleted. Future projections suggest that insufficient reserves are being discovered and developed in the lower 48 states to fully replace production[15].

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[11] Futures estimated between $4.25 and $7.25 per Mcf for natural gas and $38-44 per barrel of oil for year 2005 based upon the following literature: Dennis Curran, *Outlook for oil and gas is bright*, The Wyoming Business Report, December 2004, page 16; *Raymond James Energy 'Stat of the Week', How Predictable Are Oil and Gas Prices?*, Rocky Mountain Oil Journal with the permission of Raymond James & Associates, February 11-17, 2005 issue, pages 4 and 10; Thomas A. Petrie, *Energy Market Drivers 2005, A Macro Perspective*, Petrie Parkman &Company, presentation to Wyoming Governor Dave Freudenthal, Cheyenne, Wyoming, January 6, 2005

[12] Andrew D. Lundquist, *National Energy Policy, Report of the National Energy Policy Development Group*, May 2001; 2 separate Presidential Executive Orders issued May 18, 2001

[13] Bobby S. Shackouls, *Balancing Natural Gas Policy, Fueling the Demands of a Growing Economy, Volume II, Integrated Report*, National Petroleum Council, September 2003, page 28

[14] Schackhouls, page 119

[15] Schackouls, page 127

Lastly, as stated in the draft EIS document, the BLM needs to honor valid existing rights and leases previously purchased and the document should define how the BLM would manage new pipelines that cross or intersect historic trails (Cherokee, Overland, Rawlins to Baggs or Fort Washakie).

The WPA has been given the legislative authority to 'finance, construct, develop, acquire, maintain, and operate a pipeline system or systems within or without the state of Wyoming to facilitate the production, transportation, distribution and delivery of natural gas and associated natural resources produced in the state (including but not limited to propane, butane, ethane, methane, carbon dioxide, sulphur, helium, nitrogen, natural gas liquids, synthetic fuels, and water related to energy production)'. In legalese terms, we are a *body politic and corporate operating as an instrumentality* of the State, but we are not a state agency or regulatory body.

Our mission is simple and driven by the facts: the delayed/deferred development of natural gas projects currently contemplated under the Rawlins RMP's 'preferred alternative' will hinder Wyoming's ability to assist in meeting forecast national market energy demand which will ultimately affect the development of pipeline infrastructure to bring these resources to market.

The WPA appreciates the opportunity to submit these comments. If you have questions, please do not hesitate to contact us.

Sincerely,

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