Wyoming Pipeline Authority

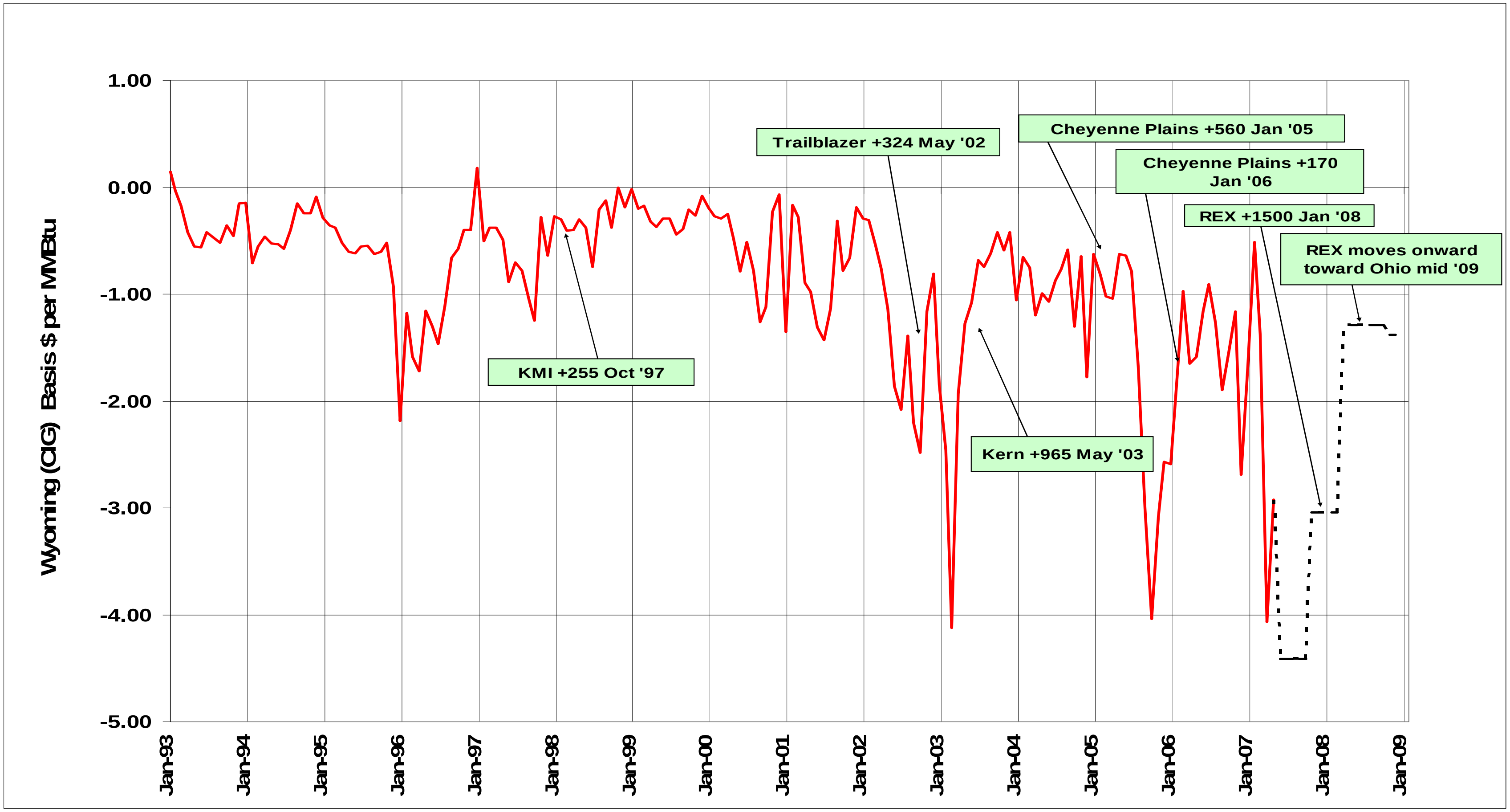
Why timely capacity additions are required to prevent detrimental price discounts for natural gas produced in Wyoming

As natural gas production in Wyoming, Utah and Colorado continues to grow, the natural gas pipelines used to export gas away from three states is periodically forced to operate at very high rates of capacity. At capacity utilization rates above 85%, natural gas prices in Wyoming and the other states come under duress due to gas on gas competition. Periodically, pipeline expansions occur which relieve the price pressure until increased production begins to tax the pipeline grid. The effect of increased capacity is demonstrated on Chart No. 1 which shows the price of gas in the Rocky Mountain region versus the national price over time with projections to January 2009. Chart No. 1 also indicates the timing of notable expansions of pipeline export capacity. Negative numbers for prices on the chart indicate the amount by which gas in the Rocky Mountains differed from national prices over time.

- Severance taxes, ad valorem taxes and the value of state and federal royalty interests are impacted by the amount that the price of natural gas in the Rocky Mountain region reflects a discount to national prices.
- Pipeline expansion projects require between 18 to 36 months to be placed in service following the execution of binding shipper agreements.
- Typical contracts between the shippers and the pipeline company are 10 to 15 year obligations
- Shippers pay fixed monthly fees to the pipeline company regardless of the actual use of the capacity by the shippers.
- Pipeline companies do not typically build pipeline expansions with any significant speculative risk to the pipeline. Expansion projects do not move forward until 90%+ of the proposed expansion capacity costs have been covered by fixed obligation shipper contracts.
- The 10 to 15 year obligation to pay fixed fees to the pipeline companies for expansion capacity are a significant business risk to potential shippers.
- If the producer suffers a significant delay in production, the producer may suffer the consequences of paying for pipeline capacity for which there is no immediate need.
- As a consequence of this risk, many producers wait until the certainly of production improves.
- By the time the producers as a group are sufficiently convinced that the expansions are in their individual interest, gas production in the Rockies has already grown, the natural gas grid has begun to fill and the cycle of heavily discounted prices begins to repeat until the pipeline expansion is complete.

As the revenue interests of the State of Wyoming are tied to the prices received for natural gas, it is in the interest of the State to encourage producers to enter into agreements for pipeline capacity more promptly than the producers otherwise would. If so encouraged, the interval of time during which heavily discounted prices prevail could be lessened and the State's revenues therefore improved.

Chart No. 1 – Actual price difference between natural gas in Wyoming and the national market for the period of January 1993 to May 2007 and indicated difference from futures markets for period of June 2007 to January 2009**



Note: A negative value indicates that natural gas in Wyoming was priced lower than the national market as represented by the final settlement price for the NYMEX Natural Gas Futures contract for the corresponding month of production