

News Down the Pipe, 2006



What's Inside:

- Pipeline Developments
- Crude Oil Differential
- Other Energy Topics

A lot of exciting things are occurring in Wyoming and the Rocky Mountain region with respect to infrastructure development that will keep the commodity cycle growing for some time to come. The Kinder Morgan/Sempra/ConocoPhillips Rockies Express pipeline will be the single largest natural gas pipeline project built in the United States in perhaps 50 years and will help preserve pricing parity for Wyoming and Rockies supplies for some time to come. The Williams/Oneok Overland Pass Pipeline will provide up to 150,000 barrels of additional export capacity for growing natural gas liquid (NGL) production in the Opal and Wamsutter areas. In response to growing crude oil production in Wyoming and the Rocky Mountain region, several crude oil pipeline projects are being discussed and there is talk about building new refining capacity within the State. The Wyoming Pipeline Authority is actively involved in promoting infrastructure development in all of these areas.

One area we would particularly like to focus on in the near term is development of CO₂ infrastructure within the State. We believe that CO₂ infrastructure development will help promote: 1) enhanced oil recovery within the State and region; 2) development of "leading edge" coal fired electric generation facilities; 3) environmental stewardship via capture of existing sources of CO₂ that are being vented into the atmosphere.

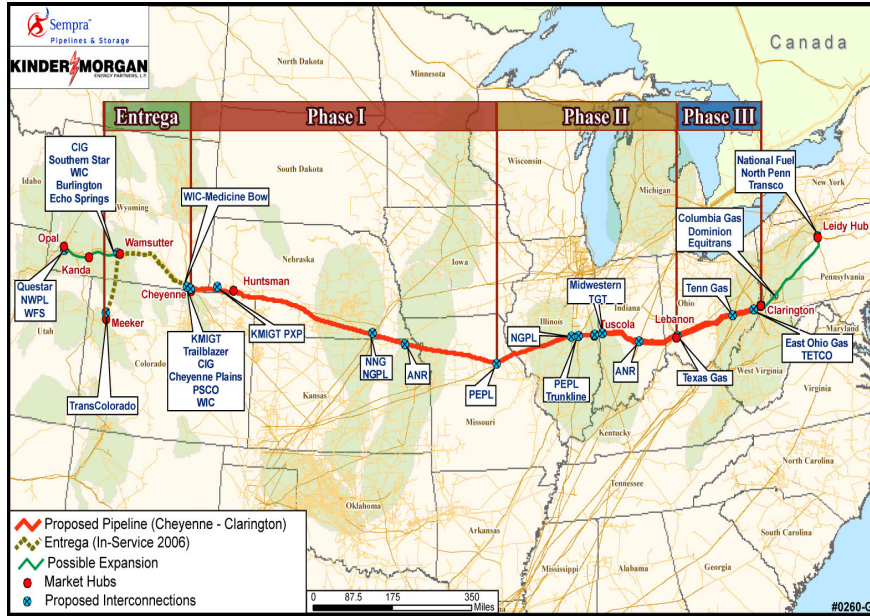
Some thoughts I'd like to leave you with.

Please reconsider reintroduction of a modified constitutional amendment that would allow Wyoming to invest in works of internal improvement as it relates to pipelines. Consider legislative action or an incentive mechanism that would accelerate capture of existing CO₂ supplies. Believe in the long term demand pull for energy and, barring any near term capacity constraints (be they natural gas or crude oil pipeline oriented or rail oriented with respect to coal transport), the strength and long term duration of this commodity cycle. Natural gas production in most parts of the United States has been declining for many years – despite the record drilling pace of the last three years. Canadian natural gas producers are struggling to replace declining reserves and the United States imports 17% of its natural gas from Canada. Developing countries (India and China in particular) are importing ever increasing volumes of crude oil and will compete for LNG supplies in the future. Coal production from Wyoming will continue to feed the nation's increasing appetite for this fuel and new technologies will make coal the fuel of choice once commerciality is proven. There will be short term price "blips" to the downside and upside as the market balances out short term supply overhangs or disruptions.

As always, we appreciate your ongoing support of our efforts. Please give me a call if you have questions or comments – 307-237-5009.

- Bryan Hassler, Exec. Director

New Pipeline Developments

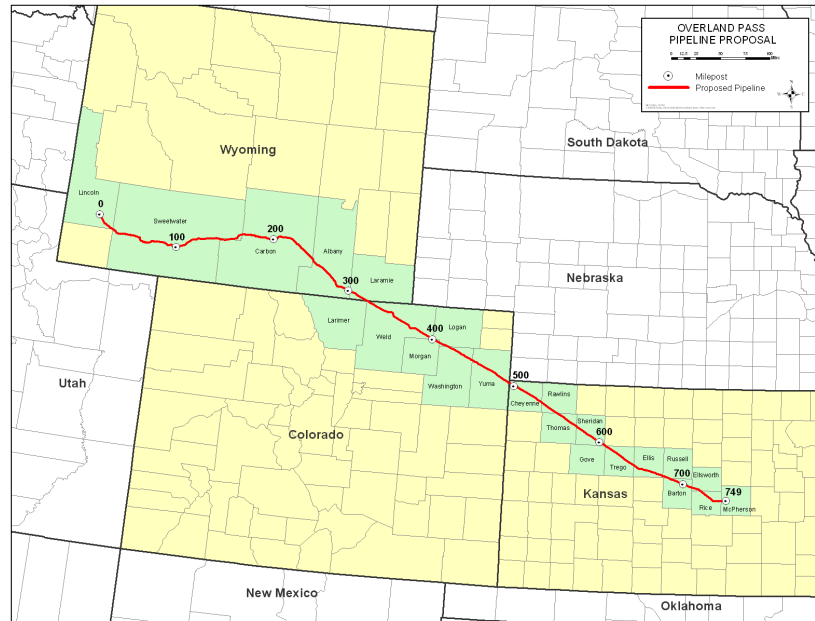


Pipeline Company, LLC. – last year to provide an additional outlet for NGL supplies produced at the company’s two natural gas processing plants in Wyoming (Opal and Echo Springs). A unit of Williams and an affiliate of ONEOK, Inc., have entered into an agreement to form a joint venture that will develop new pipeline capacity for transporting fuels such as ethane, propane and butane to one of the nation’s largest NGL storage and distribution hubs at Conway. Williams expects this pipeline will be

The joint venture between Kinder Morgan Energy, Semptra Energy, and ConocoPhillips’s Rockies Express Pipeline announced a successful binding open season on February 28th. Capacity sold out at 1.8 Bcfd. The WPA maintained 92 MMcfd of anchor shipper capacity from the originally negotiated capacity of 200 MMcfd - this outcome largely influenced by lack of credit support. WPA chose to assign its remaining capacity rights to three producers.

able to transport up to 150,000 Bpd. The project should go into service in early 2008.

The Williams Companies formally announced their intention to build a natural gas liquids pipeline from Opal, WY, to Conway, KS. Williams initiated the 750-mile project – known as Overland Pass



New Pipeline Developments cont'd



announced that Rocky Mountain Pipeline System LLC ("RMPS"), its wholly-owned subsidiary, has signed a transportation agreement with Frontier Oil and Refining Company, a subsidiary of Frontier Oil Corporation pursuant to which RMPS will construct a new pipeline system from Guernsey to Cheyenne, Wyoming in exchange for Frontier Oil's ten year firm commitment to ship 35,000 barrels per day to support this expansion project. RMPS will also lease to Frontier Oil, on a concurrent basis, approximately 300,000 barrels of storage capacity at Fort Laramie.

RMPS will construct a new pipeline system consisting of a 24-inch crude oil pipeline, approximately 10 miles in length, from Guernsey to RMPS' Fort Laramie, Wyoming tank farm and a 16-inch crude oil pipeline, approximately 85 miles in length, from Fort Laramie, Wyoming to Frontier Oil's Cheyenne refinery. This project is a natural extension of Pacific Energy's existing pipeline system serving Guernsey and Fort Laramie. Construction began in the second quarter of 2006 and is expected to be completed in the second quarter of 2007. The estimated cost of the project is \$59 million, \$31 million to be spent in 2006 and the remaining \$28 million to be spent in 2007. Initial capacity will be 55,000 barrels per day, which can be expanded to a capacity of 90,000 barrels per day.



RMPS is also proceeding with the expansion of its crude oil pipeline system from the terminus of Frontier Pipeline near Evanston, Wyoming to the Salt Lake City, Utah refining complex.

RMPS will construct a new 16-inch pipeline, approximately 91 miles in length, which will parallel and use the common rights-of-way of its existing U-Crude pipeline to Salt Lake City for much of that distance. The new pipeline will be able to transport multiple grades of crude oil in segregated batches, including Canadian heavy crude oil and synthetic crude oil. It is designed to provide the capacity necessary to meet increasing crude oil demand in Salt Lake City, both in the near-term and well into the future. The new pipeline will be constructed in two phases, with construction of the first phase scheduled to begin immediately and be completed in the fourth quarter of 2006. The completion of the first phase will add additional capacity into Salt Lake City of approximately 12,000 barrels per day. The second phase is expected to be completed in October, 2007. Capacity of the completed pipeline will be approximately 95,000 barrels per day.

Crude Oil Differential

At the request of both small crude oil producers and State leadership, the WPA has been working diligently to promote a solution to resolve the crude oil differential. As shown in the figure below, Wyoming producers were receiving \$25 less per barrel than the West Texas Intermediate price during the 1st quarter of 2006. The crude oil situation in the Rocky Mountain region is a balance between local production, imports, pipeline capacity, refining capacity, demand, and product quality. The fundamentals started changing at the end of 2005. Hurricanes Rita and Katrina decreased the refining capacity in other areas of the country forcing Rocky Mountain refineries to continue full operations through their usual 'turn around' or maintenance season (March-May).

Furthermore, as a result of high commodity prices, regional oil production had an increase after years of flat production. Unfortunately, the Suncor Refinery in Denver experienced two fires, shutting down 2/3 of their refining capacity. To add to the dynamics, refineries were approaching a June 1st U.S.E.P.A emissions deadline. Regional refineries not only had to perform annual maintenance, but many were retrofitted with new processing equipment. Excess crude was available on the market trying to reach higher priced markets but due to pipeline constraints was unable to move adequately, thus causing a reduction in price. Also, due to refinery modifications, lighter crude products have become the most economical to refine, thus leaving the heavy sour crude on the

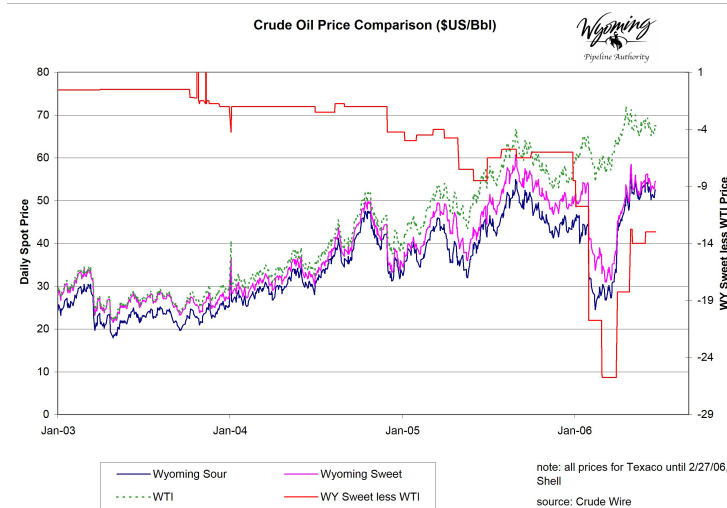
market. Some Wyoming crude production is "sour" or yields about 25% residual after refinement. This residual has little economic value in today's regional market.

The market has taken action to improve the situation. Suncor's Colorado Refinery is running again and has plans for expansion. Enbridge is increasing the capacity of their crude pipeline from Minot, ND to Clearbook, MN. There have been proposals to reconvert

the Pony Express pipeline from natural gas back to crude oil. Finally there are tentative grass roots proposals for new pipeline development from WY to Cushing, OK. The WPA will continue to monitor the situation and try to negotiate short, intermediate and long term solutions

to the crude oil market situation.

During the course of the WPA's investigation of crude oil production and supply, Canadian crude oil production was reviewed. Canada crude helps supply the regional refinery demand and insures continued refining capacity. It is estimated the Canadian crude production will double by 2015. The Rocky Mountain region needs to work with Canada to insure a viable regional industry as well develop additional new pipeline capacity to other refining areas. Additional information about Canadian crude production can be found at <http://www.capp.ca/>



Other Energy Topics

Other energy issues of note are the Wyoming Clean Coal Working Group (CCWG) and Senator Thomas' new bill 'The Energy PRICE act of 2006'. The WPA is a member of the CCWG which recently submitted a proposal to the FutureGen Industrial Alliance, Inc. for a *Futuregen Facility Host Site*. The Alliance issued a request for proposal to all states interested in participating in a zero emissions coal fueled power plant. FutureGen will combine several technologies, including coal gasification and carbon dioxide sequestration.

Senator Thomas held two days of meetings in Casper to hear testimony and comments on energy issues facing the region. The WPA participated in the meetings. As a result of Senator Thomas' inquiries, he and other senators have sponsored *The Energy Price Act of 2006* to enhance the energy production, refining, infrastructure, conservation and efficiency of the United States. The main points of the bill are as follows:

Title I – Production

- Open ANWR to oil exploration and production of 1 million barrels a day
 - Incentives for Enhanced Oil Recovery using carbon dioxide injections
- Provides long-term contract authority for coal-to-liquid fuel purchases by DOD



Title II – Refining

- Gives permitting priority to petroleum-based refinery siting on BRAC sites
- Revises the process for issuing permits for the construction and operation of a refinery
- Holds states harmless in the event that they must issue an emergency environmental waiver
 - Reduces the number of boutique fuel blends
- Allows companies to expense refinery construction and expansion

Title III – Infrastructure

- Treats certain pipelines as 5-year property for the purposes of accelerated depreciation
 - Permanent extension of treatment of natural gas distribution lines as 15-year property
- Allows the use of tax-exempt bonds to finance electric transmission and pipeline infrastructure
- Repeals a provision from the 2006 Transportation bill that blocks an LNG terminal in MA

Title IV – Conservation & Efficiency

- Provides a phased increase in CAFE mileage standards through model year 2016
- Establishes grants for an EPA program to reduce oil & gas industry methane emissions
- Requires EPA workshops for state officials on methane emission reduction techniques

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