

Office of State Lands and Investments
Funding Wyoming Public Education

122 West 25th Street
Cheyenne, WY 82002
Phone: (307) 777-7331
Fax: (307) 777-5400
slfmail@state.wy.us



Dave Freudenthal
Governor

Lynne Boomgaarden
Director

October 31, 2005

Johnnie Burton
Director, Minerals Management Service
U.S. Department of the Interior
1849 C St., NW
Washington, DC 20240

Dear Director Burton,

We would like to thank you, Deputy Director Hodsoll and the other members of your staff for the informative presentation on the potential for a Wyoming Royalty-in-Kind (RIK) Natural Gas Pilot Program. As we understand it, the purpose of this presentation was to assess the State of Wyoming's position with regard to the dedication of its 50% share of federal mineral royalties to such a program.

We recognize that the Federal objectives for this pilot include the potential realization of incremental royalties and the likelihood of administrative cost reductions, as compared to the more traditional natural gas royalty-in-value (RIV) program. We further understand that the Federal objectives do not include the use of RIK gas produced from Wyoming for any low income home energy assistance program.

For purposes of determining the performance of the pilot RIK program, we understand that the MMS will compare net revenues for RIK to estimated net RIV revenues. While the historic performance for RIK demonstrates that, on average, RIK generates additional incremental royalties when compared to RIV, we understand there is no guarantee that RIK will, in all instances, achieve increased royalties. Should the pilot RIK exceed the fair market value benchmark that approximates RIV, the State of Wyoming's 50% share will enjoy that incremental increase. However, we recognize that the possibility exists that Wyoming could realize a lower RIK value for its 50% share, relative to the estimated net RIV revenues.

During the presentation, Mr. Hodsoll represented that all costs related to the administration of the pilot RIK program will be borne by the Federal Government. More specifically, we understand that all RIK administrative costs will be paid out of the Federal receipts only after the State's share is allocated. The State's share will be calculated on the net revenues after payment of transportation and processing costs. Permissible transportation and

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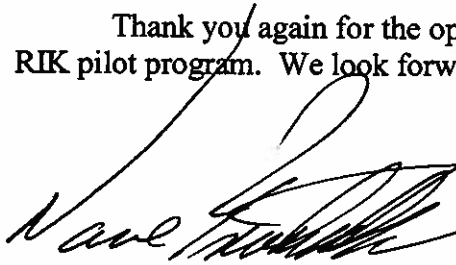
processing costs will be substantially the same as those deductions allowed under MMS RIV valuation regulations.

Under these circumstances, a majority of the State Board of Land Commissioners is comfortable with the MMS proceeding to implement a Wyoming Royalty-in-Kind (RIK) Natural Gas Pilot Program that includes the State of Wyoming's 50% share of federal mineral royalties. (The vote was 4 in favor, 1 (Governor Freudenthal) opposed.) The State does not wish to contribute any production from its state leases at this time.

We appreciate that the MMS and Wyoming have worked collaboratively on RIK oil, focusing on business planning, portfolio analysis and commercial decision-making in relation to sales events, and we look forward to receiving MMS' aggregated performance metrics in order to assess the future viability of joining MMS in a Wyoming RIK natural gas program. Moreover, we were pleased that Mr. Hodsoll expressed a willingness for MMS to assess the economic and policy efficacy of potential RIK support for various natural gas export pipeline projects.

Thank you again for the opportunity to discuss MMS' proposed Wyoming natural gas RIK pilot program. We look forward to continued dialogue on this issue.

Sincerely,



Governor Dave Freudenthal

Joe Meyer, Secretary of State



Max Maxfield, State Auditor



Cynthia Lummis, State Treasurer



Jim McBride, Superintendent of Public Instruction

cc: Francis Hodsoll
Lynne Boomgaarden