



July 21, 2009

The Honorable Brian D. Schweitzer
Chairman, Western Governors' Association
Office of the Governor
Montana State Capitol Building
P.O. Box 200801
Helena, MT 59620-0801

Dear Governor Schweitzer,

The Interstate Natural Gas Association of America (INGAA), the Natural Gas Supply Association (NGSA) and the Independent Petroleum Association of Mountain States (IPAMS) are writing today to ask that the states represented within the Western Governors' Association (WGA) begin to examine ways in which to participate more fully and improve upon the successes of the Bureau of Land Management (BLM) Pilot Projects that are located in five Western states. With your leadership and greater participation by the states in these federal pilot projects, coordination of the regulatory permitting processes for natural gas development can be vastly streamlined and improved among the agencies. Increased state involvement in these programs will provide a more straightforward approach to the permitting process, thereby increasing state economic benefits.

We commend the WGA for recognizing the need to increase the supply of domestically-produced, low-carbon fuels. As you pointed out in your November 2008 letter to then President-elect Obama, "there should be a substantial, long-term national commitment to investment in energy technology and infrastructure, in the same way our nation made a commitment to put a man on the moon." Our organizations appreciate the can-do spirit of the West and, like you, believe continued resource development in Western states is integral to meeting our country's future energy needs. Increased state participation in the Federal Permit Streamlining Pilot Projects is a major step to meeting those goals.

The Energy Policy Act of 2005 (EPAct of 2005) directed the BLM to establish the Federal Permit Streamlining Pilot Project to improve agency coordination on oil and gas permitting on Federal mineral estate as a means of meeting the country's need for dependable, affordable, environmentally responsible energy. Subsequently, BLM designated seven project sites in Wyoming, Montana, New Mexico, Colorado and Utah. At each of these sites, federal government agencies that have a role in the permitting process operate out of these offices under a memorandum of understanding (MOU). EPAct of 2005 also provided for state agencies that are responsible for wildlife

management, environmental quality and historic preservation, as well as state oil and gas commissions, to become partners in the pilot programs. This legislation encouraged state involvement in the pilot offices, allowing states to sign the federal MOU if requested by the Secretary of the Interior. Since these offices were implemented, we have seen steady increments of success and state involvement has been integral to the success of the pilots.

Natural gas producers have to juggle many requirements when investing in new production. A producer considers two fundamental factors when deciding whether to initiate the development of natural gas resources: (1) whether they will be operating in a stable regulatory environment in which they are confident they will be able to drill and produce gas and (2) whether adequate infrastructure will be available to access markets. Both of these factors are interdependent and producers often find themselves caught in a "Catch 22" situation in which uncertainty with respect to one of the two factors leads to uncertainty with respect to the other. On one hand, producers may lack the ability to commit to new pipeline projects if they are not certain that land access permits to drill, produce and install local infrastructure will be issued. On the other hand, if producers do not commit to new pipeline projects, they will be uncertain about whether adequate pipeline capacity will be available to access markets, thereby making the ability to produce that much more uncertain. Thus, companies are likely to be much more willing to make a financial commitment to developing natural gas resources in those states with predictable outcomes in which a company can reliably make a stable business plan.

Western governors have shown strong support for getting pipeline infrastructure built because they understand that, without adequate pipeline infrastructure to carry natural gas out of Western basins to consuming regions, gas production can be trapped. If gas is trapped, then there is less value for the commodity and less economic contribution to state budgets. While it is essential to have needed energy infrastructure in place to guarantee that natural gas production is not limited, having a certificate to construct a pipeline is just one of the many obstacles that producers face as they struggle to line up all the necessary approvals needed to produce gas and bring it to market. There are other significant challenges and uncertainties that can hinder a producer's ability to make a 15- to 20-year fixed payment commitment to new infrastructure projects. Thus, in addition to supporting pipeline infrastructure, it is imperative that states also create a coordinated stable regulatory environment conducive to resource investment.

The Federal Permit Streamlining Pilot Project is certainly a start. Federal agencies and state commissions in the seven Western pilot offices have made inroads to creating a more stable permitting environment. However, to produce substantial results it will take strong leadership and adequate authority to produce both the coordination and the stability of rules necessary to gain long term commitments to underwrite pipelines. Members of the WGA can provide this leadership and play an important role in negotiating for effective governance of these pilot programs. As states become more fully engaged in these programs, these coordinated efforts will greatly increase industry

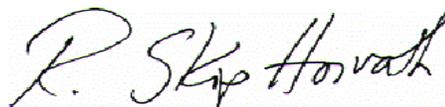
confidence in the overall permitting process which will, in turn, increase energy development and assure the continued economic contributions associated with increased natural gas production in Western states.

Your voices need to be heard at both the federal and state levels to help officials understand the importance of continued natural gas development. With the spirit of the West, we are confident that the WGA can take the reins to ensure that a clear vision of our energy future is realized. Greater participation in the federal coordination projects or other similar streamlining processes will provide for a more straight-forward approach to providing needed certainty in the natural gas permitting process; thereby increasing the revenue stream that flows to Western states. We appreciate your attention to these important matters and look forward to discussing these issues with you in greater detail in the near future.

Sincerely,



Donald F. Santa
President
Interstate Natural Gas Association of America



R. Skip Horvath
President and CEO
Natural Gas Supply Association



Marc W. Smith
Executive Director
Independent Petroleum Association of Mountain States

cc: Secretary Ken Salazar
Governor C.L. Otter, Idaho
Governor Bill Ritter, Colorado
Governor Dave Freudenthal, Wyoming