

Stranded Gas Hearings

(0508310930 Minutes)

Introduction of the Legislature's Gas Pipeline Economic Consultants:

Jeffrey Leitzinger, Ph.D., President, Econ One Research, Inc.

Barry Pulliam, Senior Economist, Econ One Research, Inc.

CHAIR THERRIAULT announced that the next order of business would be the presentation by Econ One Research, Inc. ("Econ One"), regarding the economics of a natural gas pipeline project. He remarked that the Legislative Budget and Audit Committee – in order to prepare for and run, per the Alaska Stranded Gas Development Act, a public comment period of a minimum of 30 days on any gas pipeline proposal that came from the administration – has hired independent counsel. In addition to the committee having the aforementioned specific statutory directive, the legislature itself has a role in approving any proposed contract, and it was felt that as an independent branch of government, the legislature, specifically via the Legislative Budget and Audit Committee, should hire the expertise needed to advise the committee and the full legislature on this issue. The following presentation by Econ One will not pertain to any specific proposal, he added, but will instead provide Econ One with the opportunity to explain to the committee its views regarding Alaska's gas coming to market.

JEFFERY LEITZINGER, Ph.D., President, Econ One Research, Inc., relayed that Econ One is an economic research and consulting firm with offices in California and Texas that provide consulting services – centered on economics – to a variety of industries, including those involving petroleum and natural gas, regulated utilities, electricity, telecommunications, and computers. Econ One has worked for a number of state governments on energy-related matters – Alaska, California, Hawaii, Louisiana, New Mexico, New York, and Texas; for a number of federal government agencies – the U.S. Department of Justice (DOJ), the Federal Trade Commission (FTC), the U.S. Department of the Interior (DOI), and the President's Council of Economic Advisors; for a number of foreign countries and international agencies – the World Bank, Mexico, Nigeria, Turkey, and Tanzania – on matters related to the privatization of utilities and the development of new industries; and for a number of energy and petroleum companies including large, integrated companies such as British Petroleum (BP), pipeline companies such as ANR Pipeline and Koch Gateway Pipeline, and producing companies and distribution companies. He offered his belief that Econ One brings to [its clients] a balanced set of experiences as well as the thoroughness and objectivity that is required for good, economic analysis.

DR. LEITZINGER then relayed that in addition to being the president of Econ One, he has a Ph.D. in Economics from the University of California; has over 25 years of experience in economic consulting including being an economic consultant to the State of Alaska regarding Charter Oil's purchase of the state's royalty in-kind oil, royalty matters involving crude oil in the North Slope and natural gas, and the "BP-ARCO" merger; has served as an expert economist for a number of natural gas pipelines and gas producers, both in regulatory matters and in litigation; has testified before the Federal Energy Regulatory Commission (FERC) and various state-public utility commissions; and that much of his work has involved project analysis, measurement of risk, and rate of return [issues]. He relayed that he has also published articles in a number of widely reviewed public trade publications and academic articles.

DR. LEITZINGER introduced Barry Pulliam, saying Mr. Pulliam is the Senior Economist at Econ One Research, Inc. with almost 20 years of experience consulting in the petroleum and natural gas industries. He informed the committee that Mr. Pulliam has served as an economic expert for the state on severance tax matters, the operation of the Trans-Alaska Pipeline System (TAPS) Quality Bank, state and antitrust investigations, mergers, and the recent arbitration between the state and ExxonMobil regarding crude oil royalties. Furthermore, Mr. Pulliam has consulted with the states of California, New Mexico, Texas, and Louisiana; worked with federal government agencies; and co-authored two recent studies prepared for Alaska's Department of Natural Resources (DNR) regarding natural gas markets and royalty valuation issues.

DR. LEITZINGER introduced Anthony Finizza, Ph.D., saying Dr. Finizza has special expertise in energy

forecasting and in the analysis of investment decisions and has a Ph.D. in Economics and Finance from the University of Chicago. Furthermore, Dr. Finizza was chief economist for ARCO from 1975 through 1998 where he was in charge of petroleum price forecasting, and, along with management, evaluated and assessed investment decisions. He has consulted with the California Energy Commission, the State of Hawaii, and the International Hydrogen Infrastructure Group on energy-related matters and currently teaches forecasting and modeling at the University of California. Furthermore, Dr. Finizza has published articles in a number of well-respected journals and general-interest publications; is a Senior Fellow with the U.S. Association for Energy Economics; and was the former president of the International Association for Energy Economics.

DR. LEITZINGER then introduced Rick Harper, saying Mr. Harper brings day-to-day, hands-on experience in the industry, particularly with regard to natural gas because he has over 30 years of experience working for natural gas producers and pipelines and has held a number of senior management positions, including 15 years with ARCO – serving as president of ARCO Gas; 10 years with Northwest Natural Gas Company – serving as Senior Vice President with responsibility for marketing, supply, transportation, trading, and storage; and [6 years] with CanorEnergy, Ltd. – serving as President and Chief Executive Officer of that Canadian oil and gas exploration and production company. Mr. Harper has an understanding of and experience with Canadian markets, pipelines, and energy industry; and has testified on matters related to gas markets and pipelines before the FERC, the National Energy Board (NEB) of Canada, and regulatory commissions in Texas, California, and Oregon.

DR. LEITZINGER relayed that Mr. Pulliam has been the central force in terms of organization and management of "the project" and keeping the team all pulling in the right direction.

BARRY PULLIAM, Senior Economist, Econ One Research, Inc., relayed that Econ One's role is to review and analyze the economic models constructed by the administration for purposes of evaluating various gas pipeline proposals. Econ One has also been retained to consult with the Legislative Budget and Audit Committee regarding the economic aspects of any contract brought forth. Econ One began work in the spring of 2005 and met with certain members of the committee and committee counsel, and then met with the employees and consultants of the Department of Revenue (DOR) and the Department of Natural Resources (DNR) who had been involved in the negotiation process and in developing the models that the administration was using and who included Roger Marks, Michael Williams, Randy Hoffbeck, Antony Scott, William Nebesky, Greg Bidwell, Dr. A. Pedro H. van Meurs, Lukens Energy, Muse Stancil, and Goldman Sachs. Additionally, Econ One has met with Dan Dickenson, Commissioner Corbus, and Commissioner Irwin.

MR. PULLIAM said that Econ One has participated in a number of discussions and presentations by the administration regarding the modeling efforts and the negotiations process. In the course of Econ One's work, it has reviewed and analyzed the models prepared by DOR, DNR, and their consultants; specifically analyzing how those models were constructed, what their underlying assumptions were, what their inputs were, and the results that were generated. The assumptions that were reviewed included but were not limited to: future gas, natural gas liquid (NGL), and oil prices; likely delivery locations for Alaska gas; pipeline tariffs; capital costs; operating costs; production volumes over time; and the operation of Alaska's fiscal system, both as it is currently and as it might be under the various proposals being discussed. He relayed that in [reviewing the models], Econ One considered the following questions: Do the models do what they are intended to do? Are they operationally sound? Are there conceptual errors? Are there mathematical errors?

MR. PULLIAM relayed that Econ One also interviewed a number of individuals and firms active in the U.S. gas industry regarding Alaska gas – how it will enter North American gas markets and what roll it will have; has analyzed published data, reports, and information regarding U.S. gas markets; and has reviewed confidential data prepared by the producers, TransCanada PipeLines Limited ("TransCanada"), and the port authority. That data was then used in the administration's economic models, but Econ One is not free at this time to discuss or share that information publicly. Econ One has also reviewed the various confidential proposals that have been put forth by the different parties that the state is negotiating with,

and has developed a model of a gas pipeline project using publicly available and nonconfidential data.

MR. PULLIAM offered his understanding that should a stranded gas contract be put forward to the legislature, much of the data that is now deemed confidential will become public and can then be discussed. In developing a model using public information, Econ One has looked at the development of the gas reserves and the construction of a gas pipeline under various alternatives, assuming that that construction and development were to occur under the existing fiscal system.