

PRESENTATION ON ALASKA GAS PIPELINE PROJECT

to Alaska State Legislative Budget & Audit Committee
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Alaska Gas' Position in The Marketplace

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Historical Context

- **Low price levels of 1990s reflected an “over correction” to events of the 1980s**
- **Supply response is now more moderate than 1980s; no “runs for supply”**
- **Demand response is far less dramatic than 1980s; fuel switching by industrials is no longer a predominant demand driver.**

Infrastructure Components

- **The pipeline industry has consolidated; ownership is now more concentrated, for example:**
 - ✓ **TransCanada**
 - ✓ **Kinder Morgan**
 - ✓ **El Paso**
- **Producers continue to avoid interstate pipeline ownership**
- **Transportation improvements have mitigated physical bottlenecks in the U.S. and Canada**
- **Pipeline construction is now oriented to supplies in emerging basins (e.g. Deepwater Gulf of Mexico, Wyoming and W-5 in Alberta).**

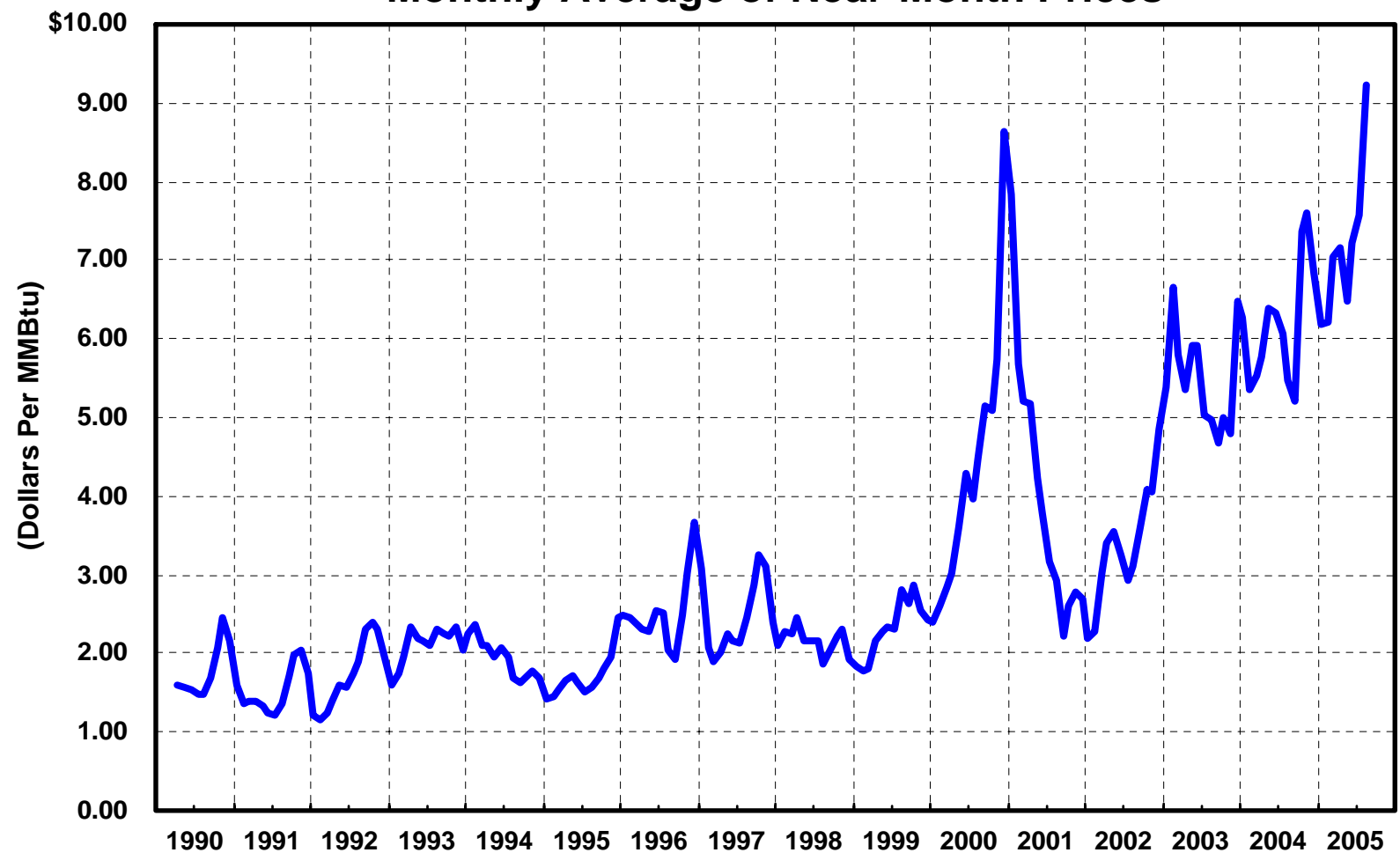
Price Environment

- **Natural gas is less fungible than oil and natural gas prices are more seasonally dependant.**
- **“Paper” versus “physical” gas markets.**
- **NYMEX commodities prices.**
- **NYMEX gas price “strip” is now at unprecedented high levels.**
- **Current prices levels are not sustainable over the long term.**

NYMEX Natural Gas Futures Prices

(April 1990 - August 2005)

Monthly Average of Near-Month Prices

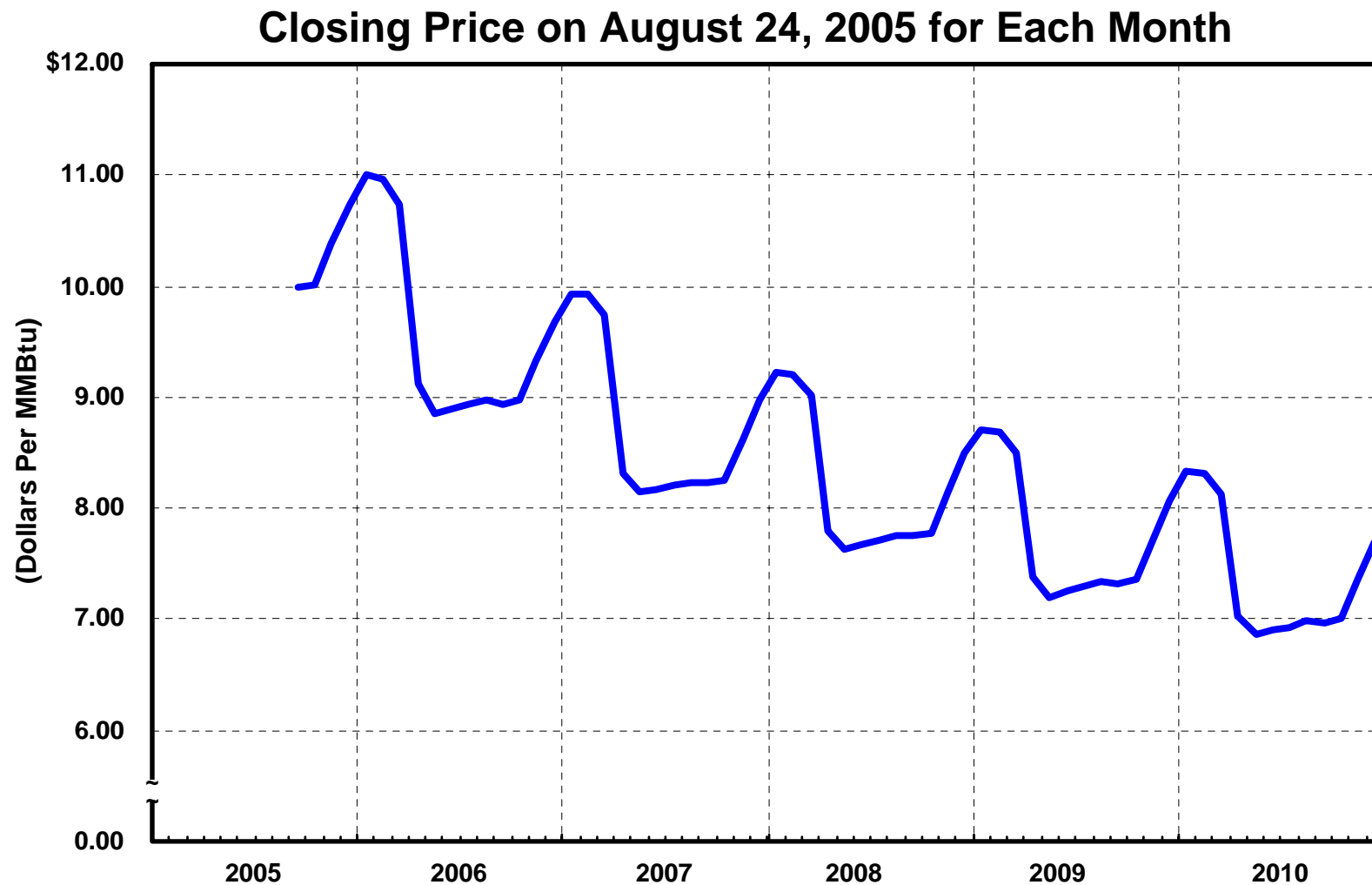


Source: NYMEX.



NYMEX Natural Gas Futures Prices

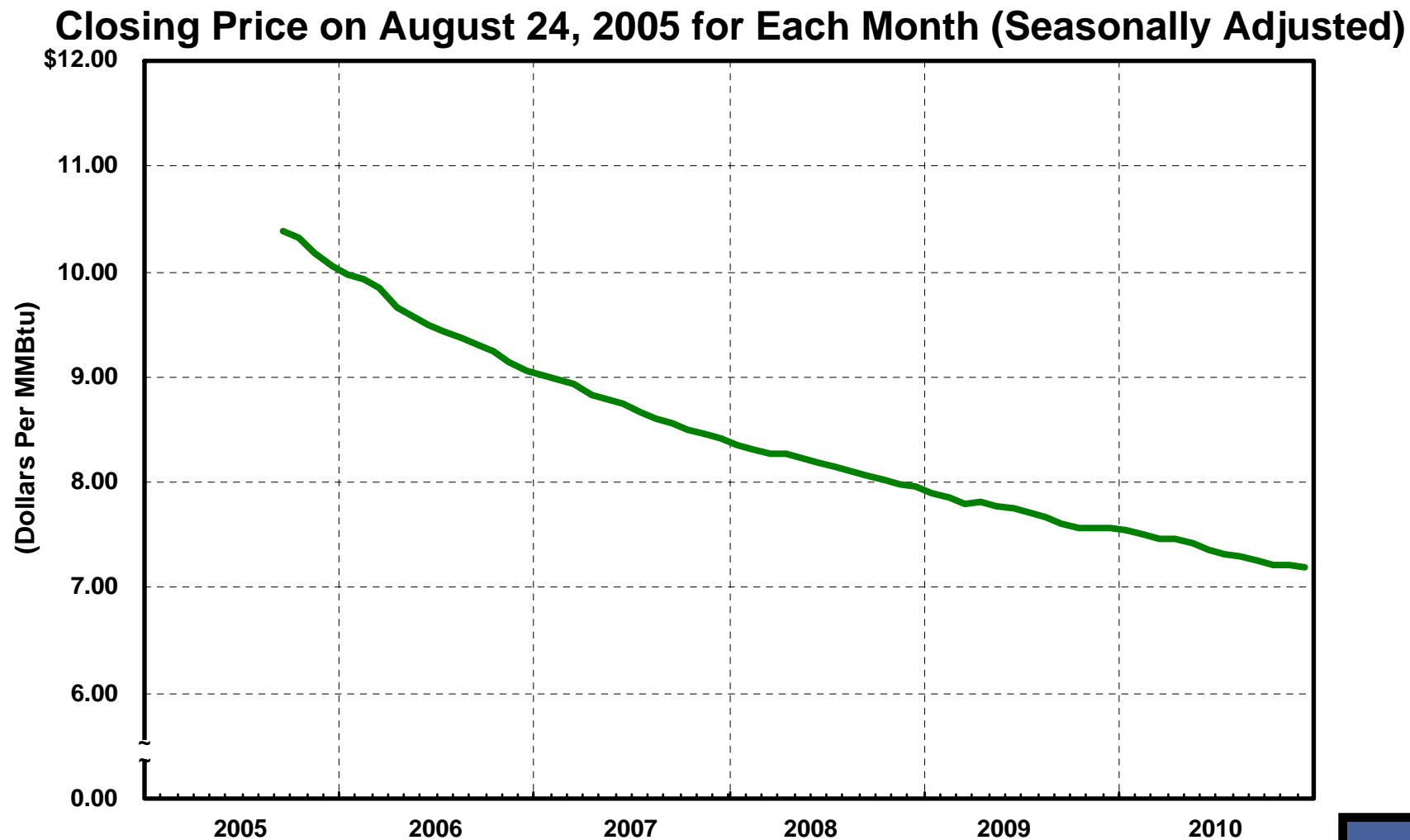
(September 2005 - December 2010)



Source: NYMEX.

NYMEX Natural Gas Futures Prices

(September 2005 - December 2010)



Source: NYMEX.

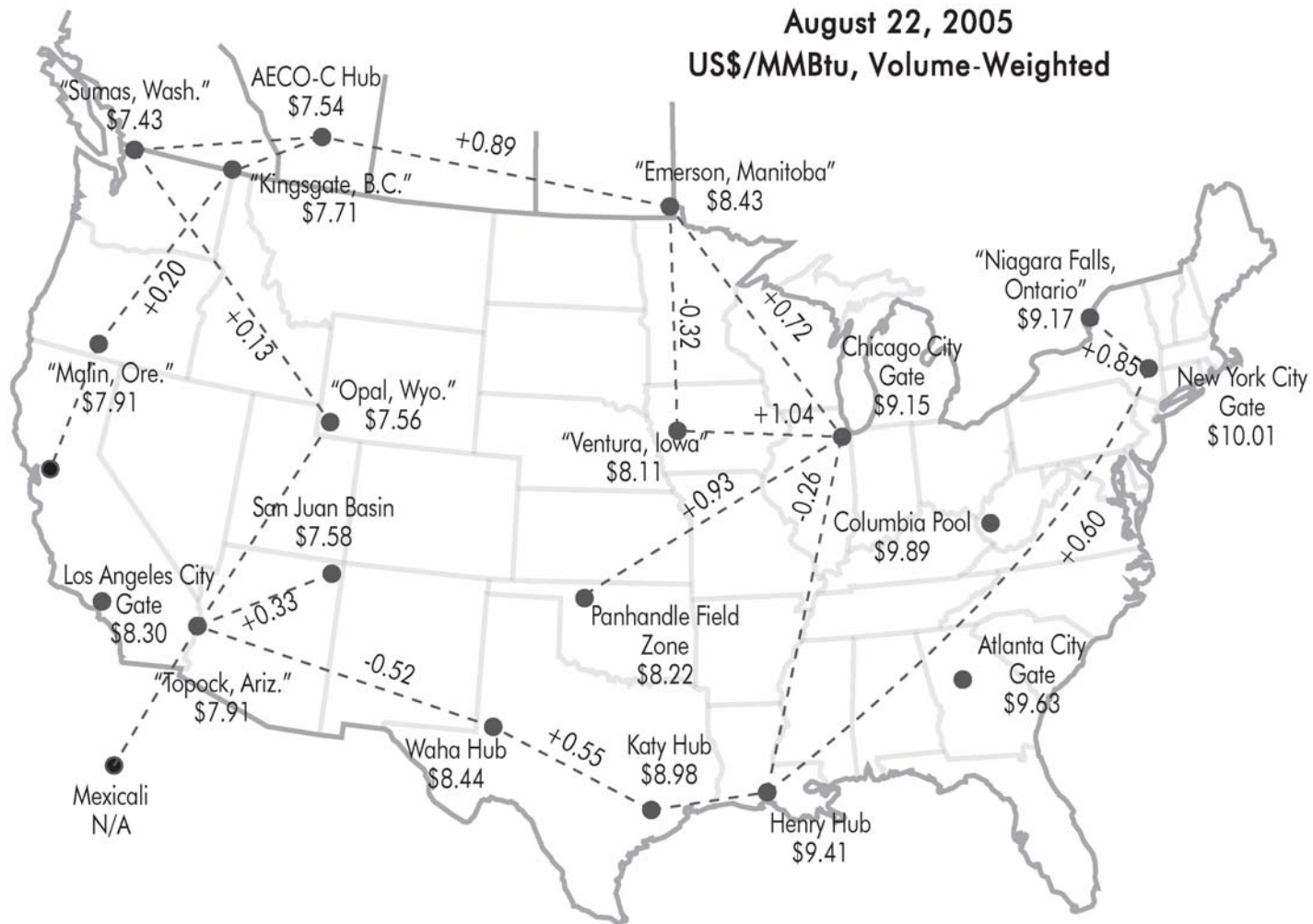
Price Environment

- **Supply and demand responses have been slower and more moderate than in prior decades**
- **Non-traditional supplies (e.g. LNG, frontier gas) now play a more significant role**
- **Market expectation is for long term prices to return to a neighborhood around \$5; there are indications that long term deals can be done today in the range of \$5 to \$7**

“Basis” Dynamics

- **Major North American natural gas market hubs:**
 - ✓ **Henry Hub (Louisiana)**
 - ✓ **Chicago**
 - ✓ **AECO (Alberta)**
- **Basis differentials (i.e., location based price differences) reflect inherent volatility from factors such as weather and power demand**
- **Trades in the OTC market have been important for the development of derivative products such as puts, calls, and collars**

Natural Gas Prices at Major Gas Trading Locations and Selected City Gates



Source: Natural Gas Week.

North Slope Gas

- **North Slope gas will be “base loaded” into the market and will replace declining supplies in Alberta and the Gulf Coast**
- **LNG and short-lived fields will be marginal sources of supply**
- **Basis shifts will result in pipeline additions and reorientation of conventional supplies**
- **North Slope gas may help maintain feedstock industries in Western Canada by replacing leaner Albertan gas supplies**

LNG

- **Foreign LNG and Alaska gas supplies are neither directly competitive nor mutually exclusive**
- **Foreign LNG likely will become a marginal source of supply because it is fungible and readily able to respond to regional and continental price swings**
- **Foreign LNG and Alaskan gas will fill different niches and will each be part of the total supply mix from a portfolio perspective**

Potential Markets for North Slope Gas

- **There is a high degree of interest from non-utility electric generators seeking to match long term supplies to new projects, both physically and financially**
- **Local distribution companies serving the residential and commercial markets will play a key role as they seek dependable, economic long term supplies**
- **Post-Enron, the midstream segment will regenerate and will provide some liquidity and seasonal smoothing for base-loaded North Slope production**

Hedges and Derivative Products

- **LNG and North Slope production have similar timing and pricing profiles**
- **Creative derivative products such as “costless collars” may offer an important benefit for stakeholders who need some degree of price certainty in a market which is somewhat illiquid in the out years**

Conclusions

- **Timing for North Slope gas entering the market is excellent**
- **North Slope gas is a logical addition to the North American natural gas and overall energy portfolio**
- **Adequate pricing support is apparent in the market**