

PRESENTATION ON ALASKA GAS PIPELINE PROJECT

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Analysis of Project Viability with Vertical Components

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Analysis of Project Viability with Vertical Components

- **Where to Look?**
- **Transfer Prices**
- **Capacity Commitments**

Where to Look?

- **Regulated pipeline is viable as a standalone investment**
- **Project integration should only improve economics**
- **Therefore, look to upstream economics**
- **If upstream economics are attractive, the gas pipeline is viable**

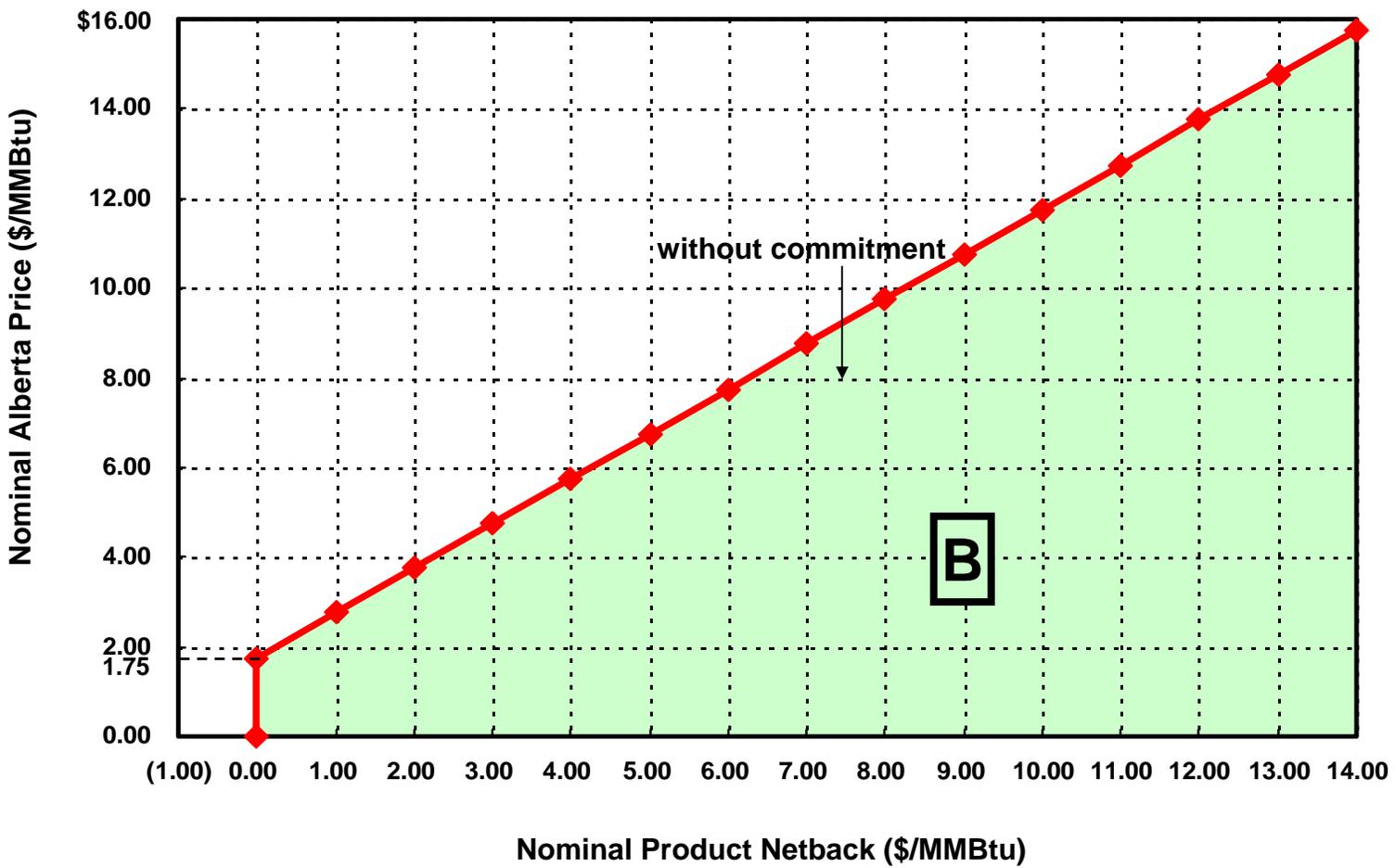
Transfer Prices

- **Division of revenue between upstream and midstream should reflect market efficiencies**
- **Regulations will keep tariffs to cost of service (pipeline return dictated by regulatory allowances)**
- **Upstream capacity commitments will be necessary**

Economics of Capacity Commitment

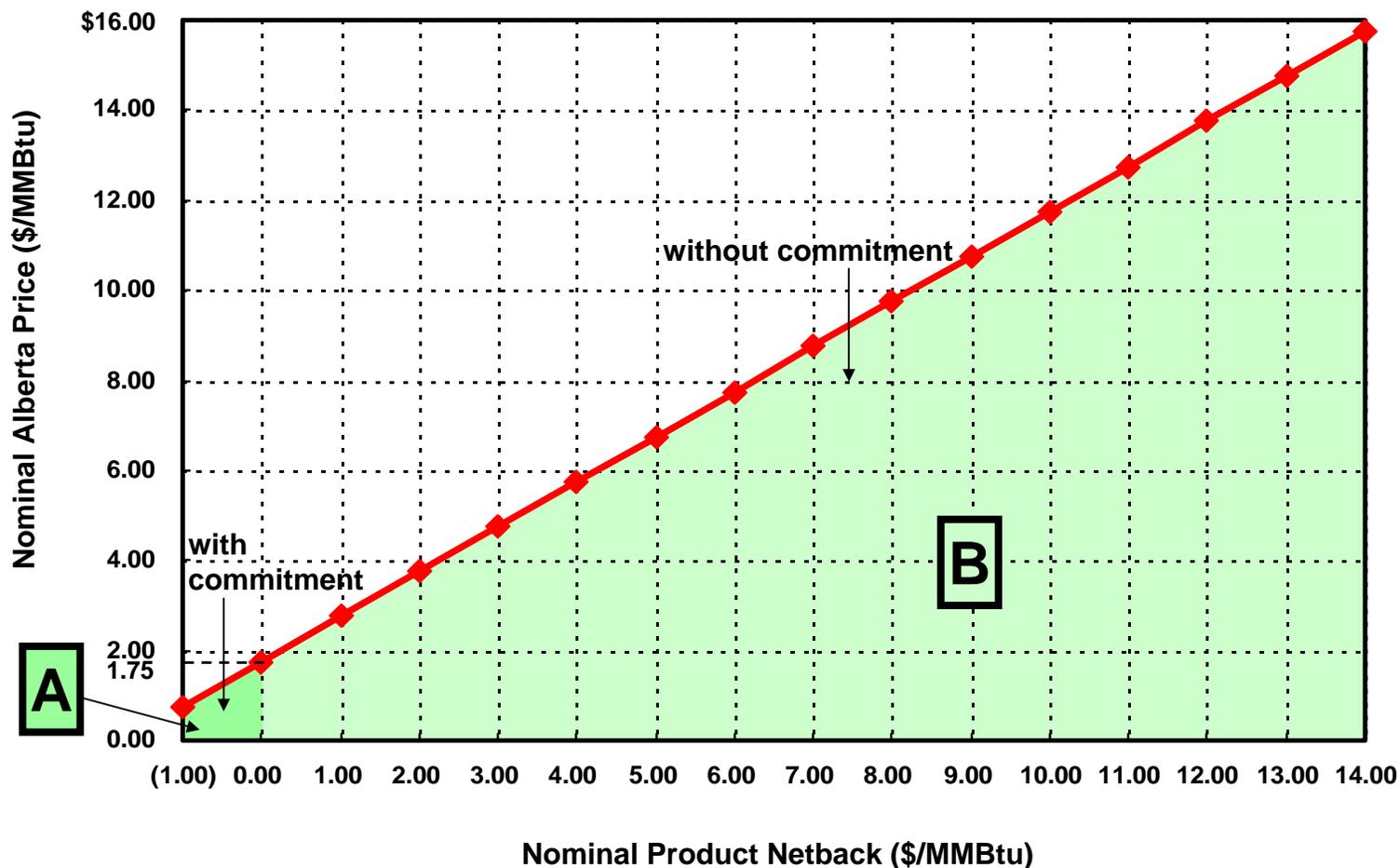
- **Does not create integrated project**
- **Not the same as debt; not a consumer of debt capacity**
- **Changes expected cash flow and risk**
- **However, these effects are small**

Gas Prices and Netbacks (without Capacity Commitment)



Gas Prices and Netbacks

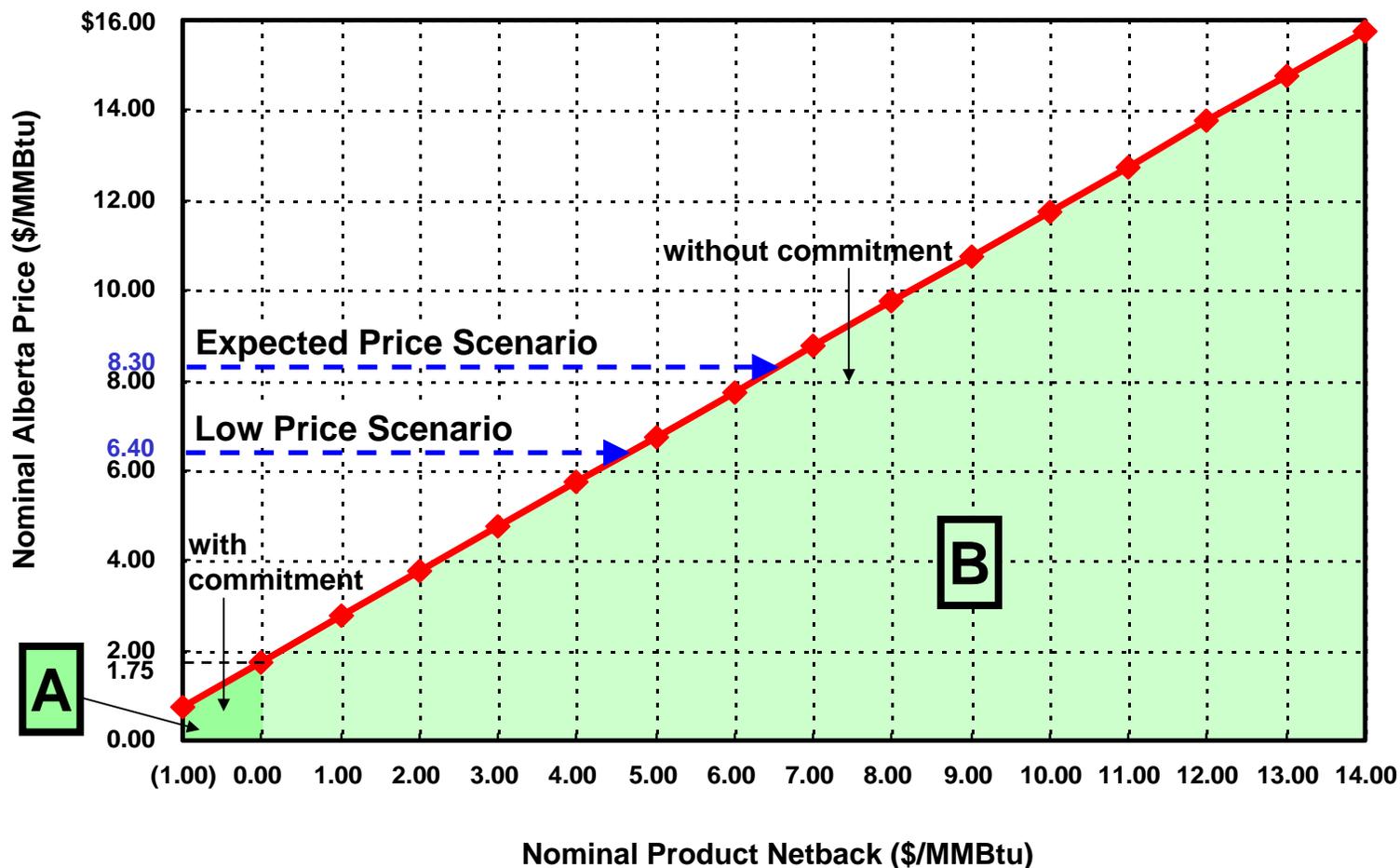
(with Capacity Commitment)



Note: A is small relative to B.

Gas Prices and Netbacks

(with Capacity Commitment)



Note: A is small relative to B and is much smaller than the expected market price of gas.

Avoiding Some Pitfalls

- **Integrated project return is less than upstream return; but so is integrated project risk**
- **Size matters; a lower integrated return may be preferable to a higher return on a smaller standalone investment**
- **Beware of rate-of-return comparisons across projects with differing risk and investment profiles**