PRESENTATION ON ALASKA GAS PIPELINE PROJECT

to Alaska State Legislative Budget & Audit Committee
August 31, 2005

Net Present Value, Rate of Return, and Profitability Index on Producer Investment

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Estimated Project Returns to Producers

- Development of Model
- Major Assumptions
- Scenarios
- Sensitivities
- Results

Estimated Project Returns to Producers

Development of Model

- The Administration has developed models of the Gas Pipeline project using a combination of publicly available and confidential data

- Models analyze the economics of the pipeline project from the standpoint of the producers and the State

- At this point, we are not able to discuss the results of those models, their assumptions, or the confidential data they contain

Estimated Project Returns to Producers
Development of Model (cont'd)

- The model reflects:
  - Gas pipeline running from the North Slope, along the Alaska Highway route, with delivery to Alberta
  - Existing fiscal terms (i.e., existing royalty and tax rates)
    - The State and SGDA Applicants have discussed and made proposals that would reflect different terms; we are not able to discuss those at this time
- We examine alternative gas price, cost, and pipeline ownership scenarios

Estimated Project Returns to Producers

Major Assumptions

- Gas pipeline developed and gas sold under current fiscal terms
- 30-year project, with sale beginning by year-end 2012
- Gas production of 4.5 BCF per day; approximately 50% from Prudhoe Bay, 16% from Point Thomson, and the balance from other fields
- Gas sales of 4.2 BCF per day in Alberta (AECO Hub)
- Gas prices in Alberta average $0.90/MMBtu below Henry Hub/ Chicago levels
- Average heat content of 1.1 MMBtu per MCF
- Gas treatment plant, pipeline, and Point Thomson facilities financed with a combination of 80% debt (with federal guarantees) and 20% equity
- Borrowing costs on federally guaranteed debt of 5% per year
- FERC allows a 14% rate of return on equity for U.S. portion of pipeline; NEB allows a 12% return for Canadian portion

Estimated Project Returns to Producers

Major Assumptions (cont'd)

- Costs and prices inflated by 2.5% per year from 2004
- Capital costs consistent with producer presentation to legislature in August 2001 and June 2004
  - Capital cost include gas treatment plant, pipeline, and Point Thomson field development costs
  - We have added additional capital for construction of a "feeder" pipeline from Point Thomson to the gas treatment plant and for development of gas reserves outside of Prudhoe Bay and Point Thomson
- We assume gas sold on a "BTU" basis (i.e., no uplift for potential NGL extraction) -- likely a conservative assumption
- Consistent with this assumption, we have not included capital for a NGL extraction facility
- We have not attempted to model any related impact on liquids production at this time

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Estimated Project Returns to Producers

Scenarios

- **Pipeline Ownership**

1. **Baseline: Producers build and own 100% of pipeline**
2. **Producers own 50% of pipeline with another party**
3. **Third-party (such as TransCanada) builds and owns 100% of pipeline**

Estimated Project Returns to Producers

Sensitivities

- **Gas prices**
- **Costs**

Estimated Project Returns to Producers
Sensitivities (cont'd)

- Gas Prices
  - EIA Annual Energy Outlook (AEO) 2005 ($4.90)*
    - Prices (in 2004 dollars) range from $4.05 to $5.10 over time
  - Futures Market Implied ($5.00)*
  - Low Price Scenario ($4.00)*
  - High Price Scenario ($6.00)*

* Constant 2004 dollars.

Estimated Project Returns to Producers

Sensitivities (cont'd)

- Costs
  - Baseline Capital and Operating Costs
  - 20 Percent Increase Relative to Baseline in Capital and Operating Costs
  - 20 Percent Decrease Relative to Baseline in Capital and Operating Costs

Estimated Project Returns to Producers

Results

Scenario 1:
Producers Own 100% of Pipeline

Estimated Project Returns to Producers
(Producers Own 100% of Pipeline)

- Producers' capital outlays include cost of all facilities, including gas treatment plant, pipelines, and field development
- Producers ship all gas on pipeline constructed, financed, and regulated as described earlier in "Assumptions" section

Estimated Project Returns to Producers
(Producers Own 100% of Pipeline)

Price Assumption	NPV^{10} ($ Billion) (1)	NPV^{10} /BOE ($/Bbl.) (2)	Profitability Index^{10} (3)	IRR (Percent) (4)
*EIA AEO 2005 ($4.90)**	*$14.1*	*$1.85*	*2.36*	*19.2%*
Futures Market Implied ($5.00)*	15.5	2.03	2.49	20.4%
Low Price Scenario ($4.00)*	9.8	1.28	1.94	17.2%
High Price Scenario ($6.00)*	21.2	2.77	3.04	23.1%

* Constant 2004 dollars.

Estimated Project Returns to Producers

(Producers Own 100% of Pipeline -- Costs Increased by 20%)

Base Case

Price Assumption	NPV^{10} ($ Billion) (1)	NPV^{10} /BOE ($/Bbl.) (2)	Profitability Index^{10} (3)	IRR (Percent) (4)
*EIA AEO 2005 ($4.90)**	*$14.1*	*$1.85*	*2.36*	*19.2%*
Futures Market Implied ($5.00)*	15.5	2.03	2.49	20.4%
Low Price Scenario ($4.00)*	9.8	1.28	1.94	17.2%
High Price Scenario ($6.00)*	21.2	2.77	3.04	23.1%

Costs Increased by 20%

Price Assumption	NPV^{10} ($ Billion) (1)	NPV^{10} /BOE ($/Bbl.) (2)	Profitability Index^{10} (3)	IRR (Percent) (4)
*EIA AEO 2005 ($4.90)**	*$12.6*	*$1.65*	*2.05*	*17.4%*
Futures Market Implied ($5.00)*	14.0	1.83	2.16	18.4%
Low Price Scenario ($4.00)*	8.3	1.09	1.69	15.5%
High Price Scenario ($6.00)*	19.7	2.57	2.63	21.0%

* Constant 2004 dollars.

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Estimated Project Returns to Producers

(Producers Own 100% of Pipeline -- Costs Decreased by 20%)

Base Case

Price Assumption	NPV10 ($ Billion) (1)	NPV10 /BOE ($/Bbl.) (2)	Profitability Index10 (3)	IRR (Percent) (4)
*EIA AEO 2005 ($4.90)**	*$14.1*	*$1.85*	*2.36*	*19.2%*
Futures Market Implied ($5.00)*	15.5	2.03	2.49	20.4%
Low Price Scenario ($4.00)*	9.8	1.28	1.94	17.2%
High Price Scenario ($6.00)*	21.2	2.77	3.04	23.1%

Costs Decreased by 20%

Price Assumption	NPV10 ($ Billion) (1)	NPV10 /BOE ($/Bbl.) (2)	Profitability Index10 (3)	IRR (Percent) (4)
*EIA AEO 2005 ($4.90)**	*$15.6*	*$2.05*	*2.80*	*21.5%*
Futures Market Implied ($5.00)*	17.0	2.22	2.95	22.9%
Low Price Scenario ($4.00)*	11.3	1.48	2.30	19.4%
High Price Scenario ($6.00)*	22.6	2.96	3.61	25.8%

* Constant 2004 dollars.

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Estimated Project Returns to Producers
Results

Scenario 2:
Producers Own 50% of Pipeline

Estimated Project Returns to Producers
(Producers Own 50% of Pipeline)

- Producers' capital outlays includes cost of gas treatment plant, Point Thomson field development, and additional capital for future gas development, plus 50% of pipeline costs

- Producers ship all gas on 50% owned pipeline constructed, financed, and regulated as described earlier in assumptions section

Estimated Project Returns to Producers
(Producers Own 50% of Pipeline)

Price Assumption	NPV^{10} ($ Billion) (1)	NPV^{10} /BOE ($/Bbl.) (2)	Profitability $Index^{10}$ (3)	IRR (Percent) (4)
*EIA AEO 2005 ($4.90)**	*$15.3*	*$2.01*	*3.21*	*23.4%*
Futures Market Implied ($5.00)*	16.7	2.18	3.40	25.1%
Low Price Scenario ($4.00)*	11.0	1.44	2.58	21.1%
High Price Scenario ($6.00)*	22.4	2.93	4.22	28.5%

* Constant 2004 dollars.

Estimated Project Returns to Producers

(Producers Own 50% of Pipeline -- Costs Increased by 20%)

Base Case

Price Assumption	NPV10 ($ Billion) (1)	NPV10 /BOE ($/Bbl.) (2)	Profitability Index10 (3)	IRR (Percent) (4)
*EIA AEO 2005 ($4.90)**	*$15.3*	*$2.01*	*3.21*	*23.4%*
Futures Market Implied ($5.00)*	16.7	2.18	3.40	25.1%
Low Price Scenario ($4.00)*	11.0	1.44	2.58	21.1%
High Price Scenario ($6.00)*	22.4	2.93	4.22	28.5%

Costs Increased by 20%

Price Assumption	NPV10 ($ Billion) (1)	NPV10 /BOE ($/Bbl.) (2)	Profitability Index10 (3)	IRR (Percent) (4)
*EIA AEO 2005 ($4.90)**	*$14.1*	*$1.84*	*2.76*	*21.2%*
Futures Market Implied ($5.00)*	15.4	2.02	2.93	22.7%
Low Price Scenario ($4.00)*	9.7	1.28	2.22	18.9%
High Price Scenario ($6.00)*	21.1	2.76	3.64	26.0%

* Constant 2004 dollars.

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Estimated Project Returns to Producers

(Producers Own 50% of Pipeline -- Costs Decreased by 20%)

Base Case

Price Assumption	NPV10 ($ Billion) (1)	NPV10 /BOE ($/Bbl.) (2)	Profitability Index10 (3)	IRR (Percent) (4)
*EIA AEO 2005 ($4.90)**	*$15.3*	*$2.01*	*3.21*	*23.4%*
Futures Market Implied ($5.00)*	16.7	2.18	3.40	25.1%
Low Price Scenario ($4.00)*	11.0	1.44	2.58	21.1%
High Price Scenario ($6.00)*	22.4	2.93	4.22	28.5%

Costs Decreased by 20%

Price Assumption	NPV10 ($ Billion) (1)	NPV10 /BOE ($/Bbl.) (2)	Profitability Index10 (3)	IRR (Percent) (4)
*EIA AEO 2005 ($4.90)**	*$16.6*	*$2.17*	*3.81*	*26.1%*
Futures Market Implied ($5.00)*	17.9	2.35	4.03	28.1%
Low Price Scenario ($4.00)*	12.3	1.60	3.07	23.8%
High Price Scenario ($6.00)*	23.6	3.09	4.99	31.7%

* Constant 2004 dollars.

Estimated Project Returns to Producers

Results

Scenario 3:
Producers Ship Over Third-Party Owned Pipeline

Estimated Project Returns to Producers
(Producers Own 0% of Pipeline)

- Producers' capital outlays includes cost of gas treatment plant, Point Thomson field development, and additional capital for future gas development
- Third-party constructs pipeline facilities, including Point Thomson "feeder" line
- Producers ship all gas on Third-Party owned pipeline constructed, financed, and regulated as described earlier in assumptions section

Estimated Project Returns to Producers
(Producers Own 0% of Pipeline)

Price Assumption	NPV10 ($ Billion) (1)	NPV10 /BOE ($/Bbl.) (2)	Profitability Index10 (3)	IRR (Percent) (4)
EIA AEO 2005 ($4.90)*	***$16.5***	***$2.17***	***5.70***	***33.8%***
Futures Market Implied ($5.00)*	**17.9**	**2.34**	**6.08**	**36.8%**
Low Price Scenario ($4.00)*	**12.2**	**1.60**	**4.47**	**31.0%**
High Price Scenario ($6.00)*	**23.6**	**3.08**	**7.70**	**41.6%**

* Constant 2004 dollars.

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Estimated Project Returns to Producers

(Producers Own 0% of Pipeline -- Costs Increased by 20%)

Base Case

Price Assumption	NPV^{10} ($ Billion) (1)	NPV^{10} /BOE ($/Bbl.) (2)	Profitability Index^{10} (3)	IRR (Percent) (4)
*EIA AEO 2005 ($4.90)**	*$16.5*	*$2.17*	*5.70*	*33.8%*
Futures Market Implied ($5.00)*	17.9	2.34	6.08	36.8%
Low Price Scenario ($4.00)*	12.2	1.60	4.47	31.0%
High Price Scenario ($6.00)*	23.6	3.08	7.70	41.6%

Costs Increased by 20%

Price Assumption	NPV^{10} ($ Billion) (1)	NPV^{10} /BOE ($/Bbl.) (2)	Profitability Index^{10} (3)	IRR (Percent) (4)
*EIA AEO 2005 ($4.90)**	*$15.5*	*$2.03*	*4.99*	*31.0%*
Futures Market Implied ($5.00)*	16.9	2.21	5.33	33.9%
Low Price Scenario ($4.00)*	11.2	1.46	3.87	28.1%
High Price Scenario ($6.00)*	22.5	2.95	6.79	38.6%

* Constant 2004 dollars.

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Estimated Project Returns to Producers

(Producers Own 0% of Pipeline -- Costs Decreased by 20%)

Base Case

Price Assumption	NPV10 ($ Billion) (1)	NPV10 /BOE ($/Bbl.) (2)	Profitability Index10 (3)	IRR (Percent) (4)
*EIA AEO 2005 ($4.90)**	*$16.5*	*$2.17*	*5.70*	*33.8%*
Futures Market Implied ($5.00)*	17.9	2.34	6.08	36.8%
Low Price Scenario ($4.00)*	12.2	1.60	4.47	31.0%
High Price Scenario ($6.00)*	23.6	3.08	7.70	41.6%

Costs Decreased by 20%

Price Assumption	NPV10 ($ Billion) (1)	NPV10 /BOE ($/Bbl.) (2)	Profitability Index10 (3)	IRR (Percent) (4)
*EIA AEO 2005 ($4.90)**	*$17.6*	*$2.30*	*6.59*	*37.0%*
Futures Market Implied ($5.00)*	18.9	2.48	7.01	40.2%
Low Price Scenario ($4.00)*	13.2	1.73	5.21	34.3%
High Price Scenario ($6.00)*	24.6	3.22	8.82	45.1%

* Constant 2004 dollars.

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The Impact of Leverage on Project Economics

- Returns shown in prior sections do not account for beneficial effect of “leverage” on producer equity investments -- they reflect average return over entire capital base, both debt and equity
- This project, consistent with pipeline projects generally, will be heavily leveraged
- Leverage under this project is likely to be even greater and more beneficial due to federal loan guarantees of up to 80% of project costs

The Impact of Leverage on Project Economics
(Producers Own 100% of Pipeline)

Base Case (Debt + Equity)

Price Assumption	NPV^{10} ($ Billion) (1)	IRR (Percent) (2)
*EIA AEO 2005 ($4.90)**	*$14.1*	*19.2%*
Futures Market Implied ($5.00)*	15.5	20.4%
Low Price Scenario ($4.00)*	9.8	17.2%
High Price Scenario ($6.00)*	21.2	23.1%

Leveraged (Equity Capital Only)

Price Assumption	NPV^{10} ($ Billion) (1)	IRR (Percent) (2)
*EIA AEO 2005 ($4.90)**	*$18.5*	*42.9%*
Futures Market Implied ($5.00)*	19.8	46.4%
Low Price Scenario ($4.00)*	14.1	40.3%
High Price Scenario ($6.00)*	25.5	51.5%

* Constant 2004 dollars.

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The Impact of Leverage on Project Economics
(Producers Own 50% of Pipeline)

Base Case (Debt + Equity)

Price Assumption	NPV^{10} ($ Billion) (1)	IRR (Percent) (2)
*EIA AEO 2005 ($4.90)**	*$15.3*	*23.4%*
Futures Market Implied ($5.00)*	16.7	25.1%
Low Price Scenario ($4.00)*	11.0	21.1%
High Price Scenario ($6.00)*	22.4	28.5%

Base Case (Debt + Equity)

Leveraged (Equity Capital Only)

Price Assumption	NPV^{10} ($ Billion) (1)	IRR (Percent) (2)
*EIA AEO 2005 ($4.90)**	*$18.1*	*50.9%*
Futures Market Implied ($5.00)*	19.5	55.3%
Low Price Scenario ($4.00)*	13.8	48.0%
High Price Scenario ($6.00)*	25.2	61.2%

Leveraged (Equity Capital Only)

* Constant 2004 dollars.

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The Impact of Leverage on Project Economics
(Producers Own 0% of Pipeline)

Base Case (Debt + Equity)

Price Assumption	NPV10 ($ Billion) (1)	IRR (Percent) (2)
*EIA AEO 2005 ($4.90)**	*$16.5*	*33.8%*
Futures Market Implied ($5.00)*	17.9	36.8%
Low Price Scenario ($4.00)*	12.2	31.0%
High Price Scenario ($6.00)*	23.6	41.6%

Leveraged (Equity Capital Only)

Price Assumption	NPV10 ($ Billion) (1)	IRR (Percent) (2)
*EIA AEO 2005 ($4.90)**	*$17.8*	*70.0%*
Futures Market Implied ($5.00)*	19.1	76.1%
Low Price Scenario ($4.00)*	13.5	66.7%
High Price Scenario ($6.00)*	24.8	83.5%

* Constant 2004 dollars.

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