

# **PRESENTATION ON ALASKA GAS PIPELINE PROJECT**

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

## **Introduction of Econ One Research, Inc.**

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# Econ One Research, Inc.

- **An economic research and consulting firm with offices in California (Los Angeles and Sacramento) and Texas (Houston and Austin)**
- **We provide consulting services in various industries, including petroleum and natural gas, regulated utilities, electricity, telecommunications, and computer software**
- **We have worked for:**
  - **A number of state governments on energy-related matters, including the States of Alaska, California, Hawaii, Louisiana, New Mexico, New York, and Texas**
  - **Federal government agencies, including the Department of Justice, the Federal Trade Commission, the Department of the Interior, and the President's Council of Economic Advisors**
  - **A number of foreign countries and international agencies, including the World Bank, Mexico, Nigeria, Turkey, and Tanzania on matters related to economic development and privatization of state-owned utilities**
  - **A number of companies in the petroleum and natural gas industries, including BP, Occidental Petroleum, ANR Pipeline, Koch Gateway Pipeline, Sempra Energy, KN Energy Corp., Lyondell-CITGO Refining, Total Petrochemicals U.S.A., Panhandle Eastern Corp., and ONEOK, Inc.**

# Dr. Jeffrey Leitzinger

- **President of Econ One Research, Inc.**
- **Ph.D. in Economics from the University of California, Los Angeles**
- **Over 20 years of experience in economic research and consulting related to the petroleum and natural gas industries**
- **Economic expert for the State of Alaska on a number of occasions dating back to the 1980s**
  - **Major ANS royalty matters involving crude oil and natural gas**
  - **Investigation of the BP-ARCO merger**
  - **Charter Oil's purchase of State of Alaska royalty oil**
- **Served as expert for natural gas pipelines and gas producers on numerous occasions**
- **Testified on a number of occasions as an economic expert before the FERC and various state public utility commissions**
- **Published articles on natural gas markets and regulatory policies in the *Oil and Gas Journal*, the *Journal of Regulatory Economics*, the *Energy Law Journal*, and *Natural Gas***

# Barry Pulliam

- **Senior Economist with Econ One Research, Inc.**
- **Masters Degree in Economics from the Claremont Graduate School, with 17 years of experience consulting in the petroleum and natural gas industries**
- **Has consulted with or served as an economic expert for the State of Alaska on a number of occasions, including:**
  - **Several severance tax matters involving the valuation of crude oil**
  - **Operation of the TAPS Quality Bank in proceedings before the FERC and Alaska PUC**
  - **Merger and antitrust investigations**
  - **Recent arbitration between State and ExxonMobil involving crude oil royalties**
- **Consulted with the States of California, New Mexico, Texas, and Louisiana on economic issues related to the petroleum industry**
- **Consulted with federal government agencies, including the Department of the Interior and the Federal Trade Commission**
- **Co-author of two recent studies prepared for the Alaska Department of Natural Resources related to natural gas markets and royalty valuation issues**

# Dr. Anthony Finizza

- **Economist working in conjunction with Econ One Research, Inc.**
- **Ph.D. in Economics and Finance from the University of Chicago with over 30 years of experience working in the petroleum industry**
- **Chief Economist for ARCO from 1975 to 1998**
- **At ARCO, Dr. Finizza was in charge of petroleum price forecasting for the company's Long Range Planning Process and conducted scenario-planning exercises with senior management responsible for investment decisions**
- **Consulted with the California Energy Commission, the State of Hawaii, and the International Hydrogen Infrastructure Group (a consortium of private companies and the U.S. Department of Energy) on energy-related matters**
- **Currently teaches forecasting and modeling at the University of California, Irvine**
- **Published articles in *Business Economics*, *The Journal of Corporate Renewal*, and *The International Journal of Forecasting***
- **Senior Fellow with the U.S. Association for Energy Economics**
- **Former President of the International Association for Energy Economics**

# Rick Harper

- **Consultant to the natural gas industry working in conjunction with Econ One Research, Inc.**
- **Over 30 years of experience working for natural gas producers and pipelines**
- **Has held a number of senior management positions**
  - **15 years with ARCO, serving in a number of positions in ARCO's natural gas business, including President of ARCO Gas**
  - **10 years with Northwest Natural Gas Company, as Senior Vice President with responsibility for marketing, supply, transportation, trading, and storage**
  - **President and Chief Executive Officer of an oil and gas exploration and production company, Canor Energy, Ltd., located in Calgary, Alberta between 1994 and 2000**
- **Testified on matters related to gas markets and pipelines before the FERC, the National Energy Board of Canada, and regulatory commissions in Texas, California, and Oregon**

# Our Role

- **Review and analyze the economic models constructed by the Administration to evaluate the various Gas Pipeline proposals**
- **Consult with the Legislative Budget and Audit Committee regarding economic aspects of contract terms proposed for inclusion in contracts being negotiated under the Stranded Gas Development Act**

# Our Work to Date

- **Began work in Spring 2005**
- **Met with employees and consultants to the Department of Revenue and the Department of Natural Resources responsible for the development of Administration models**
  - **Employees of DOR included Roger Marks, Michael Williams, and Randy Hoffbeck**
  - **Employees of DNR included Antony Scott, William Nebesky, and Greg Bidwell**
- **In addition, we have interviewed DOR/DNR consultants, including Dr. Pedro van Meurs, Lukens Energy, Muse Stancil, and Goldman Sachs**



# Our Work to Date (cont'd)

- Reviewed and analyzed models prepared by DOR, DNR, and consultants
- Analyzed construction, assumptions, and various inputs to the models and the results generated
- Reviewed assumptions regarding:
  - Future gas, NGL, and oil prices
  - Likely delivery locations for Alaska gas
  - Pipeline tariffs
  - Capital costs
  - Operating costs
  - Production volumes over time
  - Operation of fiscal systems

# Our Work to Date (cont'd)

- **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?**

# Our Work to Date (cont'd)

- **Interviewed a number of individuals active in the U.S. gas industry that are familiar with natural gas development, markets, and pipeline operations**
- **Analyzed published data, reports, and information regarding U.S. gas markets**

## Our Work to Date (cont'd)

- **Reviewed data prepared by the Producers, TransCanada, the Port Authority, and the Administration that is at this time confidential**
- **That data is used in the Administration's economic models**
- **We are not free at this time to discuss or share that information publicly**

## Our Work to Date (cont'd)

- **We also have reviewed various proposals for a Gas Pipeline project put forward by the Administration and the applicants under the Stranded Gas Development Act**
- **Most of these proposals are at this time confidential; we will not be discussing them today**

# Modeling

- **Developed a model of the Gas Pipeline project using publicly available and non-confidential data; we will present results of that model later today**
- **If a Stranded Gas contract is put forward to the Legislature, it is our understanding that much of the data that is now deemed confidential will become public and we will be able to discuss and incorporate that information**

# Modeling (cont'd)

- **We have analyzed the construction of a Gas Pipeline and development of the gas reserves under various alternatives, assuming that construction and development were to occur under the existing fiscal system**
- **The information we will present is derived from publicly available or non-confidential information**