

Comments to Legislature on Gas Contract and Fiscal Interest Findings

June 14, 2006

Economic Relevance of Transportation Costs

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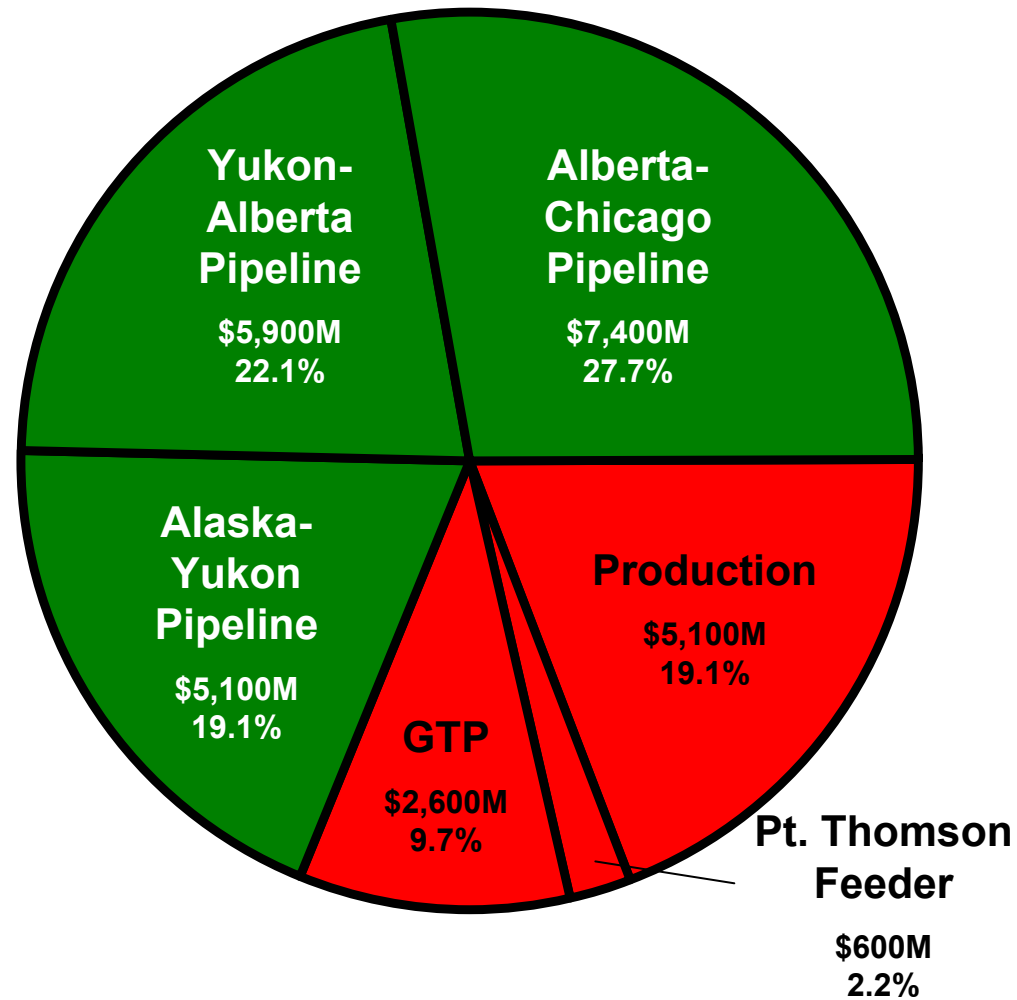
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Breakdown of Net Capital Expenditures (2005 \$M)



High Transportation Costs Hurt Its Relative Economic Performance

- **Ample Revenue to Support Expected Costs**

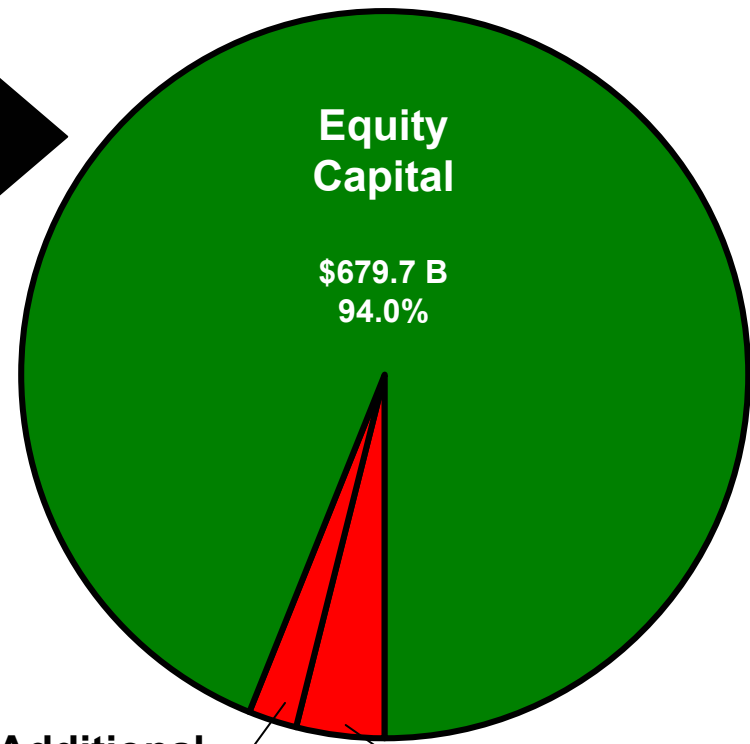
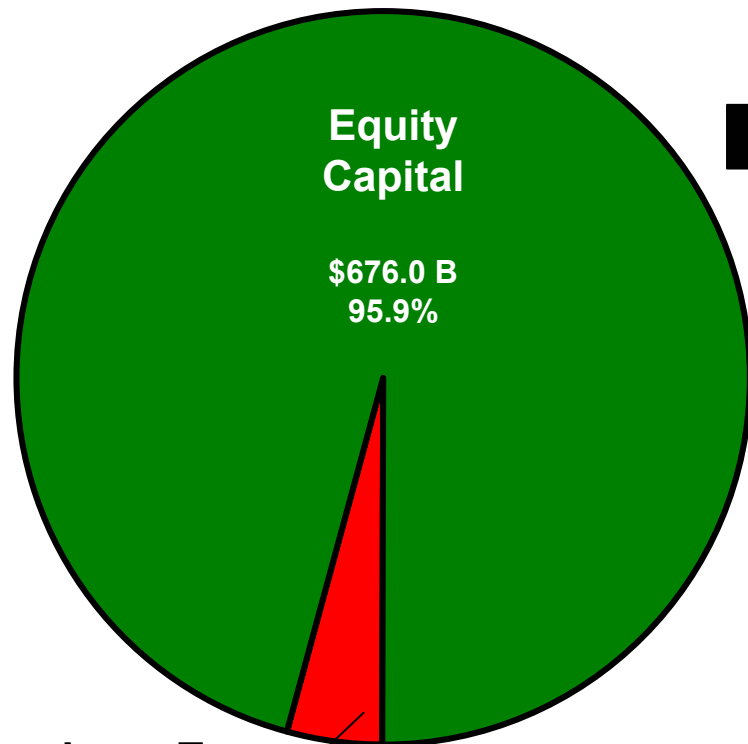
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- **Disadvantaged Relative to What?**

High Transportation Costs Hurt Its Relative Economic Performance

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- **Investment Implications of Transportation Costs**

Capital Structure of the Big 3 Producers with Pipeline Project

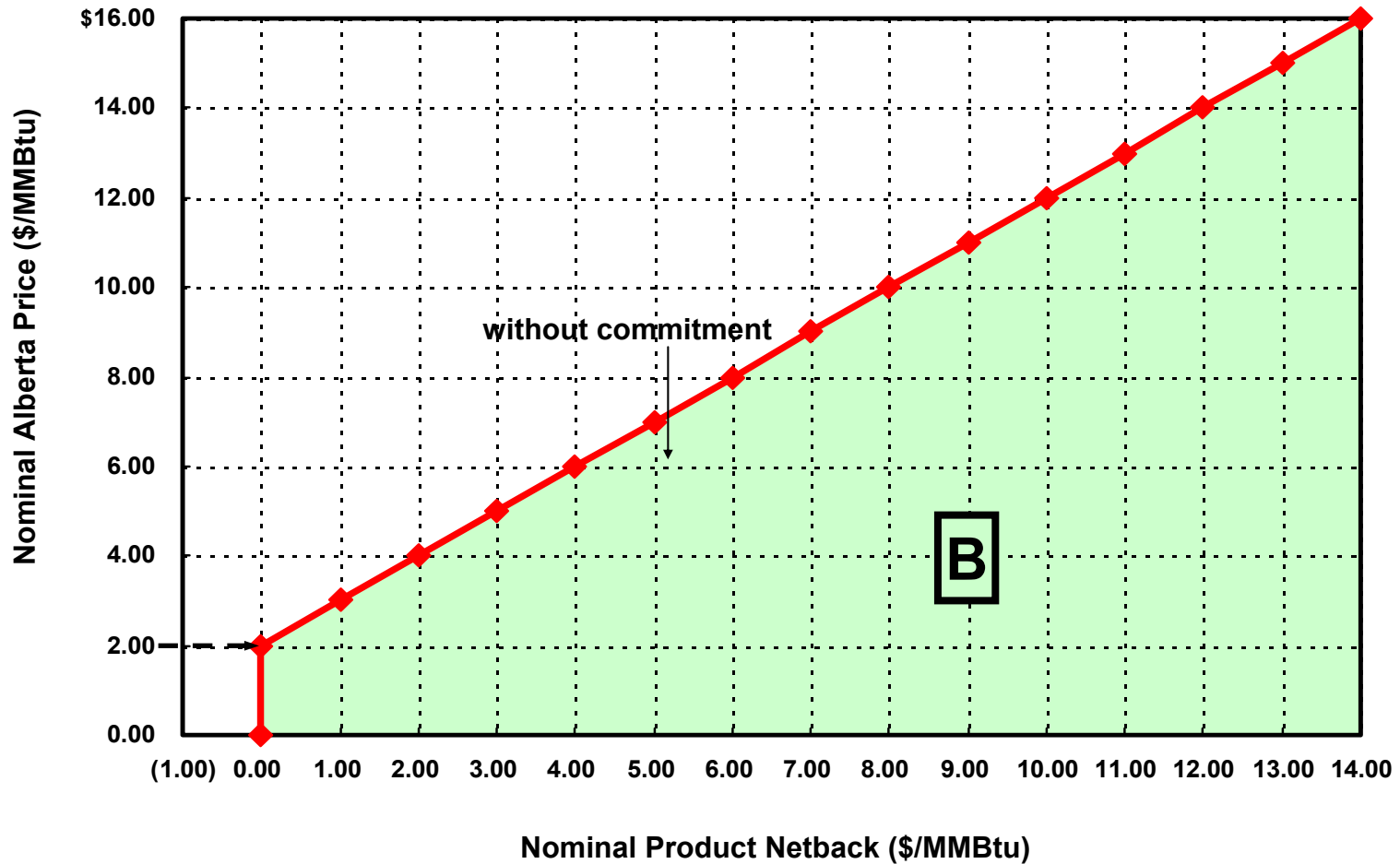


High Transportation Costs Hurt Its Relative Economic Performance

- **Ample Revenue to Support Expected Costs**
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- **Investment Implications of Transportation Costs**
- **Risk Implications of Transportation Costs**

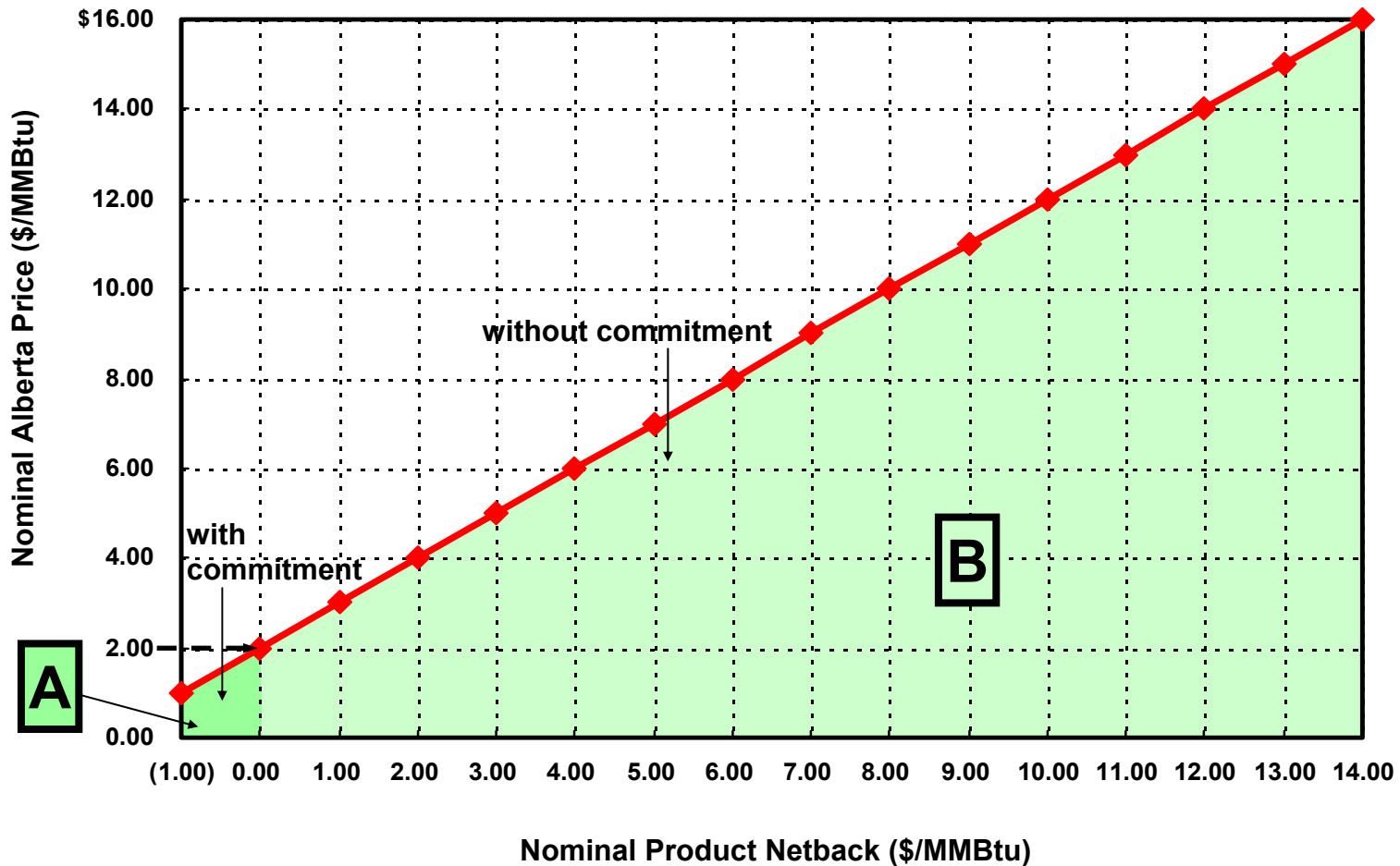
Gas Prices and Netbacks

(without Capacity Commitment)



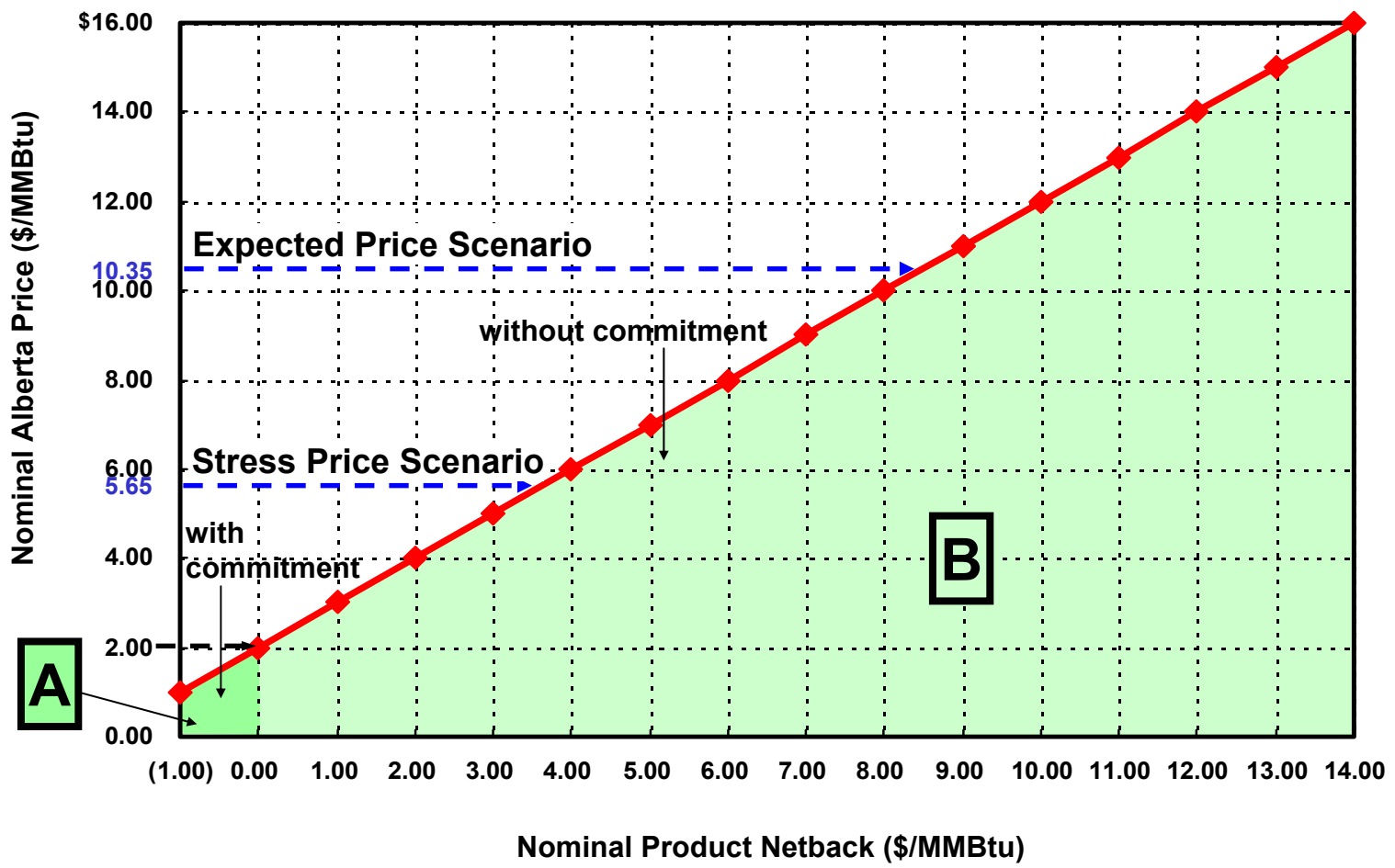
Gas Prices and Netbacks

(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.

Weighted Average Cost of Capital

- **WACC is after-tax cost of debt and equity weighted by the proportion of each in firm's capital structure**
- **2004 cost of capital for big 3 producers:**

	<u>Exxon Mobil</u>	<u>BP</u>	<u>Conoco Phillips</u>
Cost of debt	5.6%	5.9%	6.7%
Tax rate	38.6%	34.5%	43.6%
After-tax cost of debt	3.5%	3.9%	3.8%
After-tax cost of equity	7.8%	9.2%	10.8%
Debt %	2.7%	10.5%	21.9%
Equity %	97.3%	89.5%	78.1%
WACC	7.6%	8.6%	9.3%

High Transportation Costs Hurt Its Relative Economic Performance

- **Ample Revenue to Support Expected Costs**
- **Disadvantaged Relative to What?**
- **Investment Implications of Transportation Costs**
- **Risk Implications of Transportation Costs**
- **The Project's "Achilles Heal"**