GaffneyCline™
energy advisory

Comments on HB 381

House Resources Committee
1st April 2026

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Basis of Opinion

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Staff members who prepared this report hold appropriate professional and educational qualifications and have the necessary levels of experience and expertise to perform the work.

Agenda

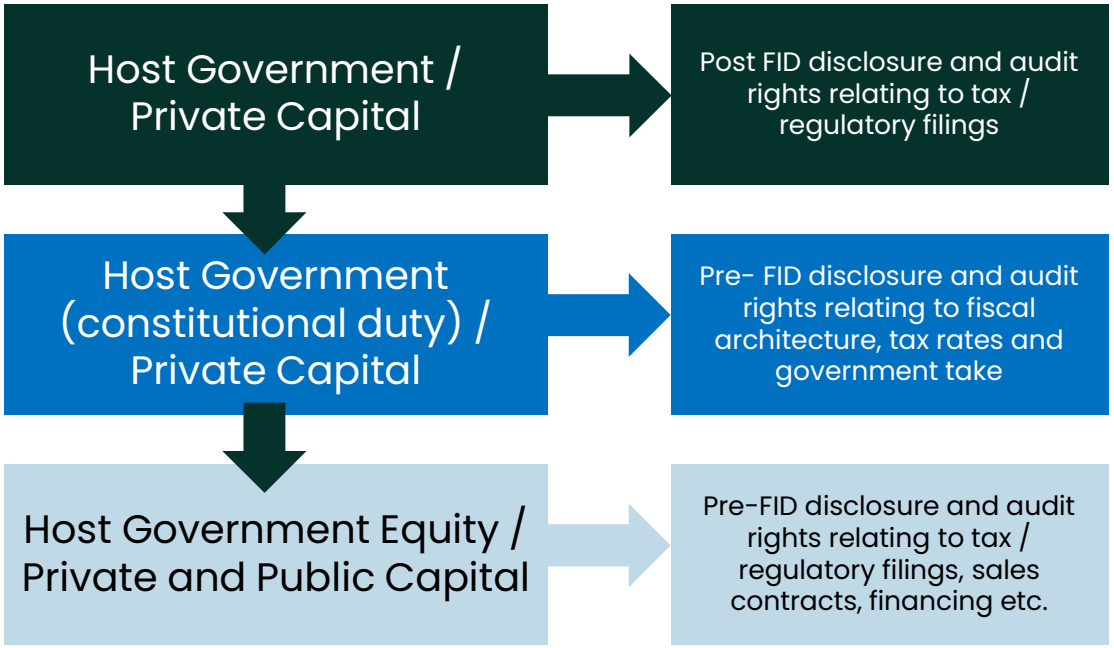
Topics to be covered

- ***LNG Fiscal Architecture and Audit Powers***
  - *Constitutional Considerations*
  - *Roadmap for Fiscal Package*
  - *Mitigations to early decision*
  - *Property Tax mitigation: lower 48*

- ***Market Pricing and Economics***
  - Recent market developments
  - Historic and forward market prices
  - DOR Breakeven Matrix in context of market

Fiscal Architecture and Audit Powers

Why does a Host Government need Disclosure



- US states other than Alaska, have no constitutional obligation. US Federal Government, Canadian Federal Government, BC Government also carry not additional duty.
- In jurisdictions that operate with a commitment to develop resources for the public good, closer collaboration and information sharing with project developers and other stakeholders is required.
- Where the host government or national oil or gas company becomes a shareholder in the project, audit rights and access to information is taken to a higher level.

LNG Jurisdictions with a Constitutional duty

LNG Jurisdiction	Public-interest / ownership language
Indonesia	State controls branches of production important to the State; earth, water and natural riches to be used for the ***greatest prosperity of the people.***
Papua New Guinea	Resources to be conserved and used for the ***collective benefit of all*** and replenished for future generations.
Nigeria	Ownership/management of minerals and natural gas vested in the Federal Government for ***the common good and benefit of citizens***.
Algeria	Subsoil ***and natural sources of energy belong to the national community***; the State oversees their management.
Peru	Natural resources are the ***patrimony of the Nation***; the State is sovereign in their use and grants concessions by law.
Mozambique	Constitution enables ***special legal frameworks for major projects in the public interest;*** used to establish tailored LNG fiscal/contractual regime.
Tanzania	Parliament empowered to review and renegotiate natural resource contracts to ***protect people's interests***; disputes to be resolved domestically.

Article VIII: Natural resources be developed, utilized, and conserved for the "**maximum benefit of the people**".

Economic Transparency - Global LNG Projects

Jurisdiction & Project	Access mechanism	Level of Disclosure of Information	Lifecycle point	What it was used for
Tanzania – Likong'o (Lindi) LNG (Shell / Equinor)	HGA talks guided by Government Natural Gas Model; macro/financial study with govt. agencies	Price thresholds, capex/opex, fiscal progressivity, DMO impacts	Pre-HGA / fiscal design	Fiscal stability, DMO level, local content, timing to FID
Indonesia – Tangguh LNG (bp)	Plan of Development (PoD) integrated economic case	DCF returns, volumes, capex/opex, CCUS impacts	Pre-FEED / expansion phases	PoD approval, scope/phasing
Mozambique – Rovuma Basin LNG (Areas 1 & 4) (ExxonMobil, ENI etc)	Decree-Law 2/2014: state party to core project agreements; approvals tied to development/ financing plans	Integrated LNG value-chain plans and financing structures	Throughout (approvals → expansion)	Fiscal stability, domestic priority uses, expansion sequencing
Papua New Guinea – Papua LNG (ExxonMobil)	Gas Agreement validated; concessions negotiated off project economics	Project returns/fiscal split; integration with PNG LNG	Post-term sheet / pre-FEED validation	Additional state benefits; pipeline/third-party access; national content
Senegal & Mauritania – GTA FLNG (bp)	Inter-governmental agreement + NOC equity	Full integrated economics	Throughout (board/JV cycle)	Revenue share, domestic allocation, expansion to Phase 2
Trinidad & Tobago – Atlantic LNG	Unitization/restructuring of multi-train complex; state modeling	Train valuations, capacity/cargo entitlements, state take	Restructuring stage	Equity split reset, offtake access, fiscal expectations

HGA: Host Government Agreement, DMO: Domestic Market Obligation

Typical Approach to Fiscal Framework /Economic Equilibrium

- Early decisions include **Principals and Fiscal Architecture** eg
  - Upstream tax and royalty regime ☑
  - Corporate income tax (state/federal) ☑
  - Federal support (eg loan guarantees or grants etc) ☑
  - Fiscal stability, eg contractual or not ☑
  - In state supply regulatory framework ☑
  - Other structural tax mechanisms (eg property tax) ✗

- Potential to defer **to FID**
  - Calibration, final numbers/tax rates
  - State participation and funding
  - In-State supply tariff mechanism

Pros and Cons of Early Fiscal Commitment

Pros

- Signals stability and reduces policy risk premium
- Enables project definition and financing
- Shapes domestic policy and budget considerations early
- Creates other structuring/tax options
- Planning benefits

Cons

- Information asymmetry & mispricing risk
- Loss of option value
- Renegotiation pressure and political risk
- Incentive misalignment
- Potential questions around revenue distribution and transparency
- Can create complexity in other areas

Legislature has discretion in many other areas

Examples

- Regulatory oversight and tariff setting for in-state sales
- Potential amendments to upstream tax and royalty.
- Nature of state equity participation and dividend structure
- Potential equity participation by Boroughs and/or other entities.

Approaches to mitigating the risks of early decisions

- Staged commitment
  - Pre-FEED/HoA: Define Fiscal Architecture (including Property Tax/AVP)
  - At FID: Lock rates and specifics.
  - Once FEED, EPC bids, financing terms, and offtake mix are known, potential to review and adjust within a pre-determined framework.
- Potential periodic reviews, within clearly set parameters.
- Sunset or termination clause triggered by time and/or other outcomes (eg change of control, market changes, federal govt. policy changes etc)
- Future repeal of relevant Acts.

Property Tax Incentives (Louisiana)

- Nominal property tax rate is 100 mills
- LNG property tax reductions are achieved through the Louisiana Industrial Tax Exemption Program (ITEP)
- Up to 80% reduction in property tax for 10 years
- Louisiana State audit estimates exemptions valued at $21 Bn

Project	Sponsor	Value
Sabine Pass	Cheniere	$4.9 Bn
Cameron LNG	Sempra	$3.7 Bn
Calcasieu Pass	Venture Global	$2.9 Bn
Plaquemines LNG	Venture Global	$834 M
Magnolia LNG	Glenfarne	$501 M

Note: Operating LNG projects, except for Magnolia LNG which is planned. Source Sierra Club, GaffneyCline Analysis

Property Tax Incentives (Texas)

Taxing Entity Rate

- County 0.30–0.45%
- City (if applicable) 0.40–0.60%
- Port authority 0.10–0.25%
- School district~1.00% (No longer available for tax concession)

- Taxable property value typically 75% of capital cost of terminal

Project	Sponsor	Value
Golden Pass LNG	QatarEnergy / ExxonMobil	$235 M
Port Arthur LNG (PALNG)	Sempra Infrastructure	$694 M
Corpus Christi LNG (incl. Stage 3)	Cheniere Energy	$1.23 Bn
Freeport LNG (Train 4)	Freeport LNG Development	$447 M
Rio Grande LNG	NextDecade	$373 M
Texas LNG	Glenfarne	$34 M

Including School District Tax reductions

2022 and after no School District Tax reductions

Note: Operating LNG projects, except for Texas LNG and Rio Grande LNG which are planned. Multiple sources, GaffneyCline Analysis

- Pre- December 31st 2022
  - up to 10 years
  - Up to 100% relief
- 2023 and after
  - Relief limited to County, City and Port relief

Property Tax Incentives (Maryland)

- LNG liquefaction terminals in Maryland are explicitly eligible for negotiated PILT agreements under state law.
- This statute was written with Cove Point specifically in mind, reflecting its unique scale, infrastructure, and economic importance.
- Allows the county to substitute a negotiated annual payment for standard real and personal property taxes
- Rationale for PILT:
  - Depreciation risk to county revenues
  - Potential delays or cancellation of an anchor economic project
- PILT was restructured in 2024, when the county approved an amended PILT agreement
  - fixed payment of $60 million per year
  - Runs for 15 years (tax years 2023–2038, expiring June 30, 2039)
- Estimated difference: PILT $11m higher than nominal property tax (State evaluation) or $32m less (based on consultant's valuation)

AVP in Tax Stack: Canada comparison

- Canada Federal CIT rate: 15%
- BC Provincial CIT rate: 12%
- BC Natural Gas Tax Credit: (creates a provincial CIT floor of 9%)
- Effective CIT: ~24% (with NG credit)

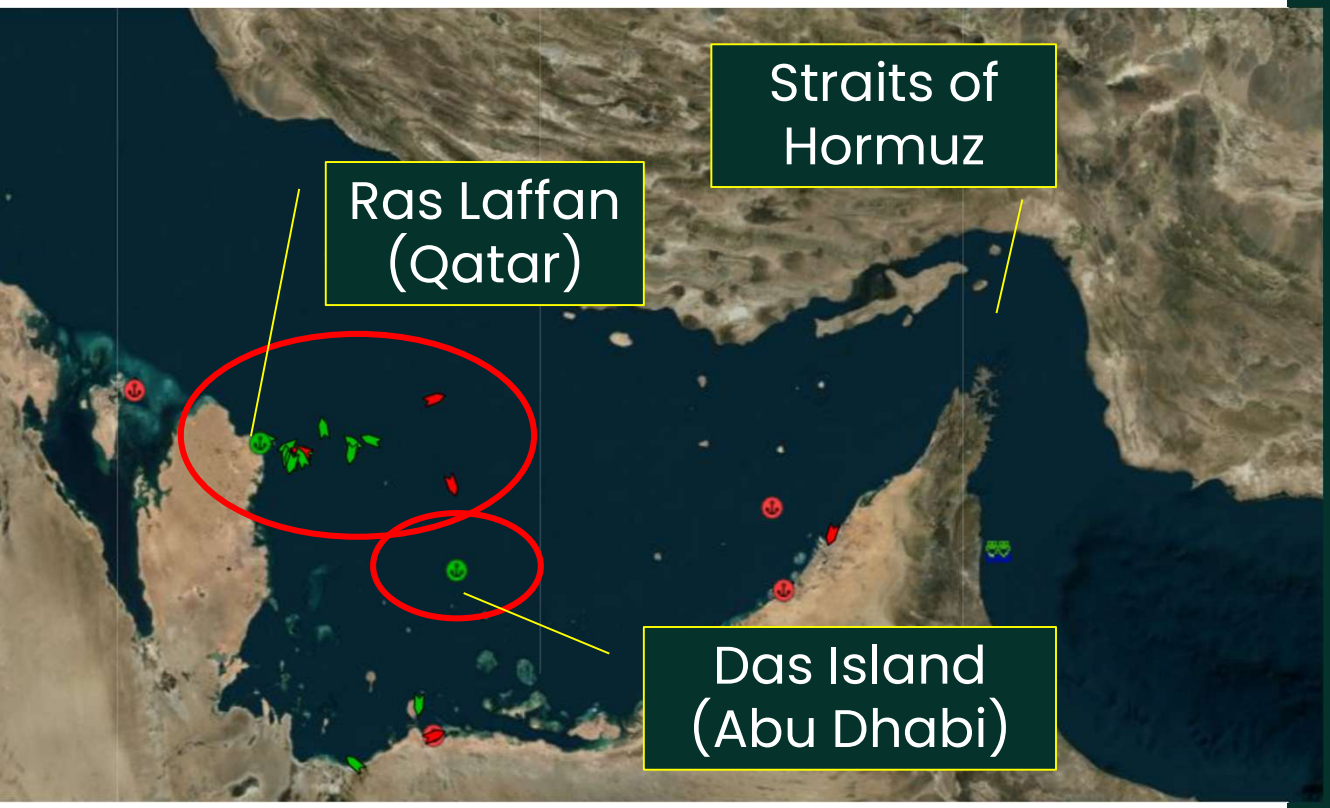
- US Federal CIT rate 21% (but state tax is allowable)
- Alaska State CIT rate 9.4%
- Effective CIT: 28.43%

- The AVP would be the equivalent of an increase in State CIT to approximately 15.6% creating an effective tax rate of 33.2%. Existing Property Tax would create an effective tax well above 40%, depending on assumptions.

Note: the analysis above is for illustrative purposes only, a detailed financial model and tax calculation would be needed to evaluate the effective tax implications of the surcharge, along with detailed project economic data.

Economics and Market Pricing

LNG Market Disruption



- Around 22 LNG carriers currently trapped in Arabian Gulf
- Qatar Energy has declared Force Majeure on their export contracts
- Usual volume 2-3 export cargoes per day (~10bcfd)
- Qatar is one of the biggest three LNG suppliers alongside US and Australia
- Effective loss of 20% of global LNG supply, spot prices up to around $25/MMBtu.
- Das Island also affected, but smaller export volumes (0.7 bcfd)
- Missile damage on 2 trains will take up to 5 years to repair.
- Majority of Qatari LNG is for Asia; India and Pakistan worst affected

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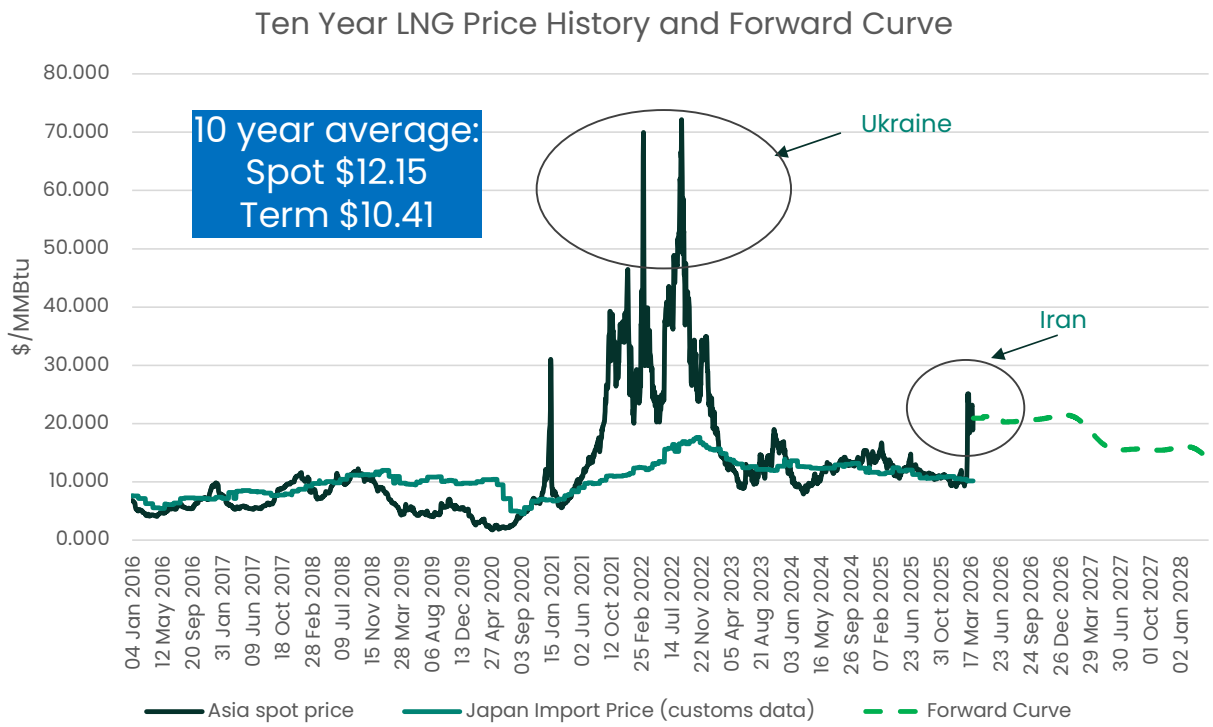
Source: ICIS/GaffneyCline analysis

LNG Pricing Expectations



Source: ICIS/GaffneyCline analysis. Uses a combination of historical price data and forward market curves which may not reflect actual price outcomes.

- Spot LNG prices and long-term contract prices follow a different pattern.
- However, long term contracts trend up in periods of high spot price and vice versa
- For a project such as AK LNG, much of the production is likely to be sold under long term contract
- Pricing might be linked to such commodities as oil, gas indices, or other variables.
- Forward prices have responded to the LNG supply disruptions in Qatar, but trend back to average levels by 2028
- Full impact of supply disruptions not yet known.
- LNG buyers looking for safe, reliable supplies of LNG.

Breakeven Matrix

Zone of profitability (Long term contract price in Japan 2016-present avg.)

Zone of profitability (JKM Spot price 2016-present avg.)

Spring 2026 Baseline

Upstream Gas Price

Alaska LNG Capital Cost	$1.00	$1.50	$2.00	$2.50	$3.00	$3.50	$4.00	$4.50	$5.00
Base CAPEX	$8.38	$9.07	$9.75	$10.44	$11.12	$11.81	$12.50	$13.18	$13.87
+20%	$9.47	$10.15	$10.84	$11.53	$12.21	$12.90	$13.59	$14.27	$14.96
+40%	$10.56	$11.24	$11.93	$12.62	$13.30	$13.99	$14.67	$15.36	$16.05
+60%	$11.65	$12.33	$13.02	$13.70	$14.39	$15.08	$15.76	$16.45	$17.14
+80%	$12.73	$13.42	$14.11	$14.79	$15.48	$16.17	$16.85	$17.54	$18.22
+100%	$13.82	$14.51	$15.20	$15.88	$16.57	$17.25	$17.94	$18.63	$19.31

GaffneyCline model shows $8.20 (likely differences include depreciation methodology and operating costs).

Proposed Legislation

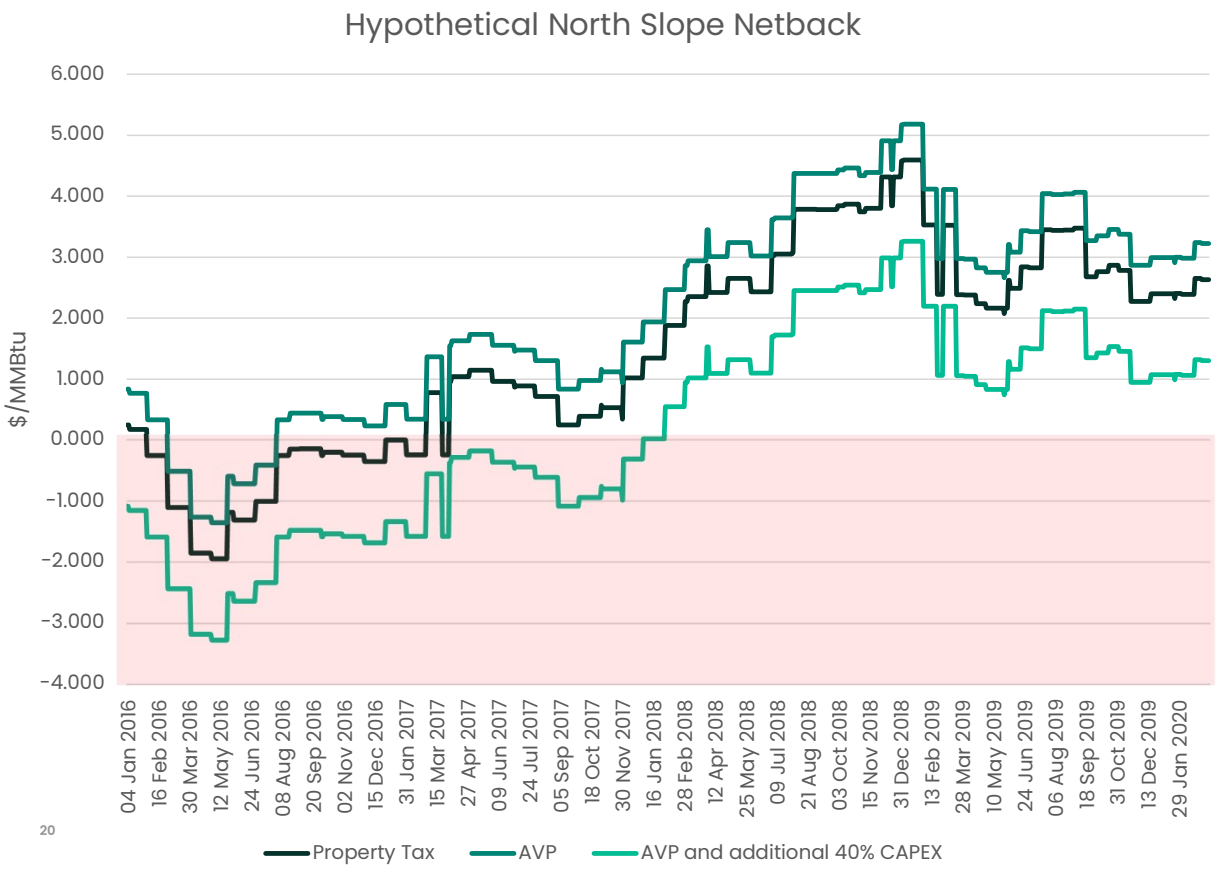
GaffneyCline model $7.81

Upstream Gas Price

Alaska LNG Capital Cost	$1.00	$1.50	$2.00	$2.50	$3.00	$3.50	$4.00	$4.50	$5.00
Base CAPEX	$7.79	$8.48	$9.16	$9.85	$10.53	$11.22	$11.91	$12.59	$13.28
+20%	$8.75	$9.44	$10.12	$10.81	$11.49	$12.18	$12.87	$13.55	$14.24
+40%	$9.71	$10.40	$11.08	$11.77	$12.46	$13.14	$13.83	$14.51	$15.20
+60%	$10.67	$11.36	$12.04	$12.73	$13.42	$14.10	$14.79	$15.48	$16.16
+80%	$11.63	$12.32	$13.01	$13.69	$14.38	$15.06	$15.75	$16.44	$17.12
+100%	$12.59	$13.28	$13.97	$14.65	$15.34	$16.03	$16.71	$17.40	$18.08

Levelized cost estimates are approximate, and rounded to the nearest dollar, actual levelized costs can only be determined from project data, capital structure, and other key assumptions.

Potential North Slope Netback



Source: ICIS/GaffneyCline analysis.

- The graph shows how much money would be left to pay for gas, if the LNG project makes a 10% post-tax rate of return
- The time period runs from 2016 through to the start of COVID, when prices became more volatile.
- The pink zone represents the zone where the LNG project would not meet its 10% return target, as the netback price is negative.
- The most profitable period, taking these historic figures, would have been in fall 2018.
- Split of profit or loss between the LNG project and the upstream producers hinges on the structure of the project, and the nature of the Gas Supply Agreement (GSA)

Questions