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energy advisory

Comments on SB 280

Senate Resources Committee
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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

- ***Fiscal Evolution for LNG Projects***
  - *Fiscal Architecture vs. Tax Rates*
- ***LNG Projects and Impacted Communities***
  - *Fiscal Evolution and Mitigations*
  - *Lower 48 Concessions*
  - *Construction Impacts*
  - *Constitutional Considerations*
  - *International Examples*
- ***Economics and Projections***
  - AVT Projections
  - DOR Breakeven Matrix in Context of Market
  - Project Economic Breakeven

Fiscal Evolution for LNG Projects

Potential Approach to Fiscal Framework

- Early decisions include **Principals and Fiscal Architecture** eg

– Upstream tax and royalty regime	☑	Established over decades
– Corporate income tax (state/federal)	☑	Existing framework
– Federal support (eg loan guarantees or grants etc)	☑	Exists in principle
– Fiscal stability, eg contractual or not	☑	Decades of governance as guide
– In state supply regulatory framework	☑	RCA regulatory process
– Property tax/community impacts	✗	Still largely undefined

Approaches to Mitigating the Risks of Early Decisions

- **Staged commitment**
  - Pre-FEED/HoA: Define Fiscal Architecture (including Property Tax/AVT)
  - 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 laws that create impediment to investment.

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

LNG Projects and Impacted Communities

Host Government Approach depends on economic and legislative drivers:

Host Government / Private Capital	Post FID disclosure and audit rights relating to tax / regulatory filings
Host Government (constitutional duty) / Private Capital	Pre- FID disclosure and audit rights relating to fiscal architecture, tax rates and government take
Host Government Equity / Private and Public Capital	Pre-FID disclosure and audit rights relating to tax / regulatory filings, sales contracts, financing etc.

- US states other than Alaska, have no constitutional obligation. US Federal Government, Canadian Federal Government, BC Government also carry no 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.

Property Tax Incentives (Louisiana)

Project	Sponsor	Value	MTPA	Approx value of tax holiday ($/mcf)
Sabine Pass	Cheniere	$4.9 Bn	30	**$ 0.33**
Cameron LNG	Sempra	$3.7 Bn	15	**$ 0.49**
Calcasieu Pass	Venture Global	$2.9 Bn	10	**$ 0.58**
Plaquemines LNG	Venture Global	$834 M	20	**$ 0.08**
Magnolia LNG	Glenfarne	$501 M	9	**$ 0.11**

Alaska Property Tax over first 10 years ($/mcf): **$0.78**
Alaska Property Tax over first 20 years ($/mcf): $0.53

- 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

Assumptions: Tax holiday monetary value calculated using the quoted value of the tax concession divided by MTPA annual figures over a ten-year period. Value of Alaska ten-year property tax value calculated using $50bn assessed value, twenty-year productive life, 20 mill tax rate nominal total over years 1 to 10.

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

Property Tax Incentives (Texas)

Project	Sponsor	Value	MTPA	Approx value of tax holiday ($/mcf)
Golden Pass LNG	QatarEnergy / ExxonMobil	$235 M	18	**$ 0.03**
Port Arthur LNG (PALNG)	Sempra Infrastructure	$694 M	13	**$ 0.11**
Corpus Christi LNG (incl. Stage 3)	Cheniere Energy	$1.23 Bn	25	**$ 0.10**
Freeport LNG (Train 4)	Freeport LNG Development	$447 M	5	**$ 0.18**
Rio Grande LNG	NextDecade	$373 M	27	**$ 0.03**
Texas LNG	Glenfarne	$34 M	4	**$ 0.02**

Alaska Property Tax over first 10 years: **$0.78**
Alaska Property Tax over first 20 years: $0.53

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

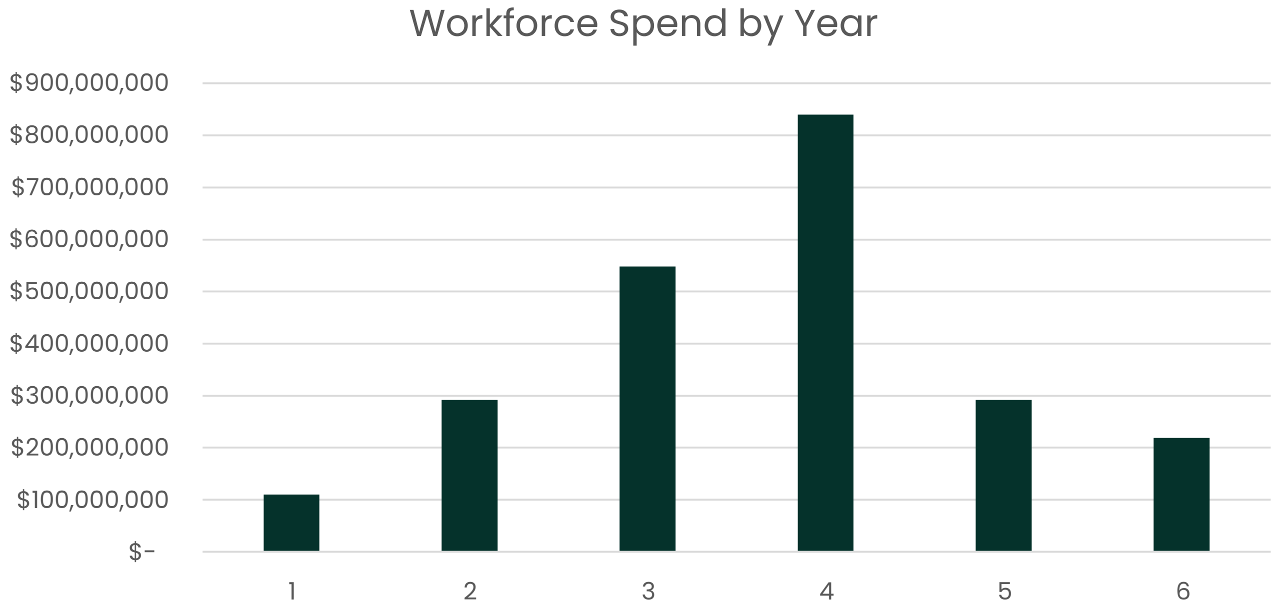
- Pre- December 31st 2022
  - up to 10 years
  - Up to 100% relief
- 2023 and after
  - Relief limited to County, City and Port relief

Assumptions: Tax holiday monetary value calculated using the quoted value of the tax concession divided by MTPA annual figures over a ten-year period. Value of Alaska ten-year property tax value calculated using $50bn assessed value, twent-year productive life, 20 mill tax rate nominal total over years 1 to 10 (and 1 to 20).

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

Worker Impact and Taxation

Project year	Typical workforce	% of peak
Year 1 – Early works	1,000–2,000	10–20%
Year 2 – Civil & foundations	3,000–5,000	30–40%
Year 3 – Mechanical ramp-up	6,000–9,000	60–75%
Year 4 – Peak construction	8,000–15,000	100%
Year 5 – Peak / early commissioning	7,000–10,000	70–90%
Year 6 – Commissioning & demob	2,000–4,000	20–30%



Source: GaffneyCline analysis, CIVEO . Typical LNG construction worker number profile. Glenfarne data (peak 12,000 workers), and $200/day camp/subsistence cost per worker (multiple citations)

- The Alaska LNG project involves three separate major construction projects:
  - Gas Treatment Plant
  - 800-mile Pipeline
  - Liquefaction Plant
- Glenfarne have indicated that peak workforce is likely to reach 12,000.
- Based on typical LNG construction experience, peak may occur in about year 4 of the project (depends on phasing of pipeline)
- Costs of providing accommodation and subsistence for workers in Alaska cited as about $200/day (plus or minus 20%)
- Peak spend on worker accommodation and subsistence could reach over $800 million, with material taxation implications.

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 (Alaska Constitution): The legislature shall provide for the utilization, development, and conservation of all natural resources belonging to the State, including land and waters, for the maximum benefit of its people.

Municipal/Community Support – Global Examples

Project	Impacted community	Mechanism	Example payment / investment (publicly documented)
Hammerfest LNG (Snøhvit), Norway	Hammerfest municipality	**Property tax**	**NOK 170 million/year** in property tax to Hammerfest municipality **(US$0.07 per mcf)**
LNG Canada, Kitimat BC (Canada)	District of Kitimat	**Tax stabilization / flat municipal taxes during construction + early ops**	Proposed flat municipal taxes (2019–2028): C**$1.62M** → **C$8.08M** (construction years) and C**$9.7M/yr** once operating (then CPI-indexed) **(US$0.01 per mcf)**
BC "LNG Benefits + Coastal Fund" (Canada)	Kitsumkalum First Nation	**Benefits agreements + annual payments**	**$20.35M over 4 years** (funds incl. community/legacy funds) + annual payment **~$750k/yr** once operating (volume-dependent) **(US$0.01 per mcf)**
Woodfibre LNG, Squamish BC (Canada)	Squamish Nation & District of Squamish area	**IBA (cash + procurement) + community investment**	CBC reported **>C$225M cash over 40 years** + **>C$872M** contracting opportunities; company reports **>C$1M** invested in local nonprofits since 2016 **(US$0.04 per mcf)**
Gorgon LNG, Western Australia	State conservation programs (broader public benefit)	**Dedicated conservation fund**	**$60M** "Net Conservation Benefits Fund" established by agreement with Chevron for conservation/restoration projects
PNG LNG (Papua New Guinea)	Project-area landowners, local-level & provincial govts	**Royalties + equity + infrastructure grants (national benefit-sharing)**	PNG LNG describes royalty (2%), equity entitlements, development levy and **K1.2B** Infrastructure Development Grants allocation; MRDC reports royalty releases with **landowners 70%** share and 40:30:30 distribution approach

Kroton Equity Option provided for 4.27% equity for impacted communities/provinces out of a total 19.4% state interest with other equity held by project sponsors ExxonMobil and Santos.

Papua New Guinea
Features to assist Impacted Communities

Financial

- **Royalties**
  - The PNG LNG Umbrella Benefits Sharing Agreement (UBSA) provides a 2% royalty that the State shares with project area landowners, affected local governments, and provincial governments.
  - Paid into a central trust arrangement with landowners receiving 70% (and provincial/local governments 30%)
- **Development Levy**
  - 2% of wellhead value
  - payable to affected provincial and local-level governments.
  - While this is not paid to clans directly, it is intended to support local service delivery in impacted areas.

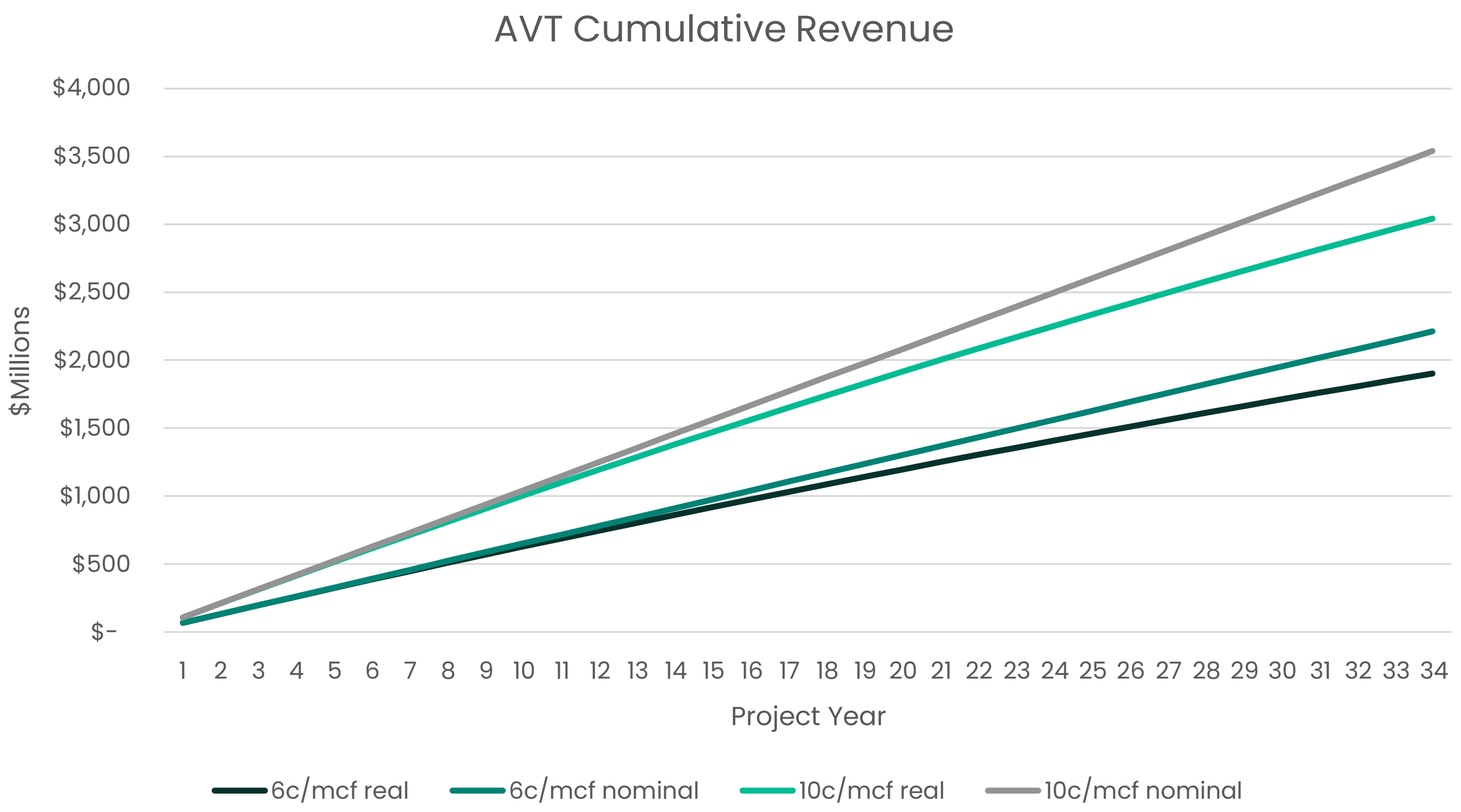
40% paid as direct cash to benefiting clans
30% to a Community Investment/Infrastructure Trust Fund
30% to a Future Generations Trust Fund

Equity

- **Equity participation and dividends**
  - UBSA includes 2.7% "free equity participating interest" in PNG LNG for landowners and local-level governments in certain (greenfield) areas.
  - UBSA also provided an option for landowners/provinces to buy into additional equity (up to a collective maximum) during a specified window. These equity interests can translate into dividends (when declared) and are part of the project's "direct benefits."
- **Equity is typically funded from project revenues.**
  - State offers assistance to finance equity
  - Preference share mechanism

Economics and Market Pricing

AVT Cumulative Revenue Projection



Source: GaffneyCline analysis. Assumes 3 bcfd gas throughput, with 1% indexation and 2% inflation. Does not reflect any ramping up of gas that may be planned.

- The 1% escalation in perpetuity might be expected to give rise to a slowly reducing AVT in real terms.
- Assuming a 2% inflation rate, after 10 years the nominal AVT annual revenue of just over $65m could represent just over $60m in real terms.
- After 35 years, the value in real terms would have fallen to just over $47m.
- Cumulative value after 35 years would be $2.23 billion in nominal terms, but $1.96m in real terms.
- Similar curves for a 10c/mcf AVT are shown for illustrative purposes.

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 AVT at 6c/mcf would be the equivalent of an increase in effective tax rate to 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.

Breakeven Matrix

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

10-year average contract price (2016-2026) $10.41

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

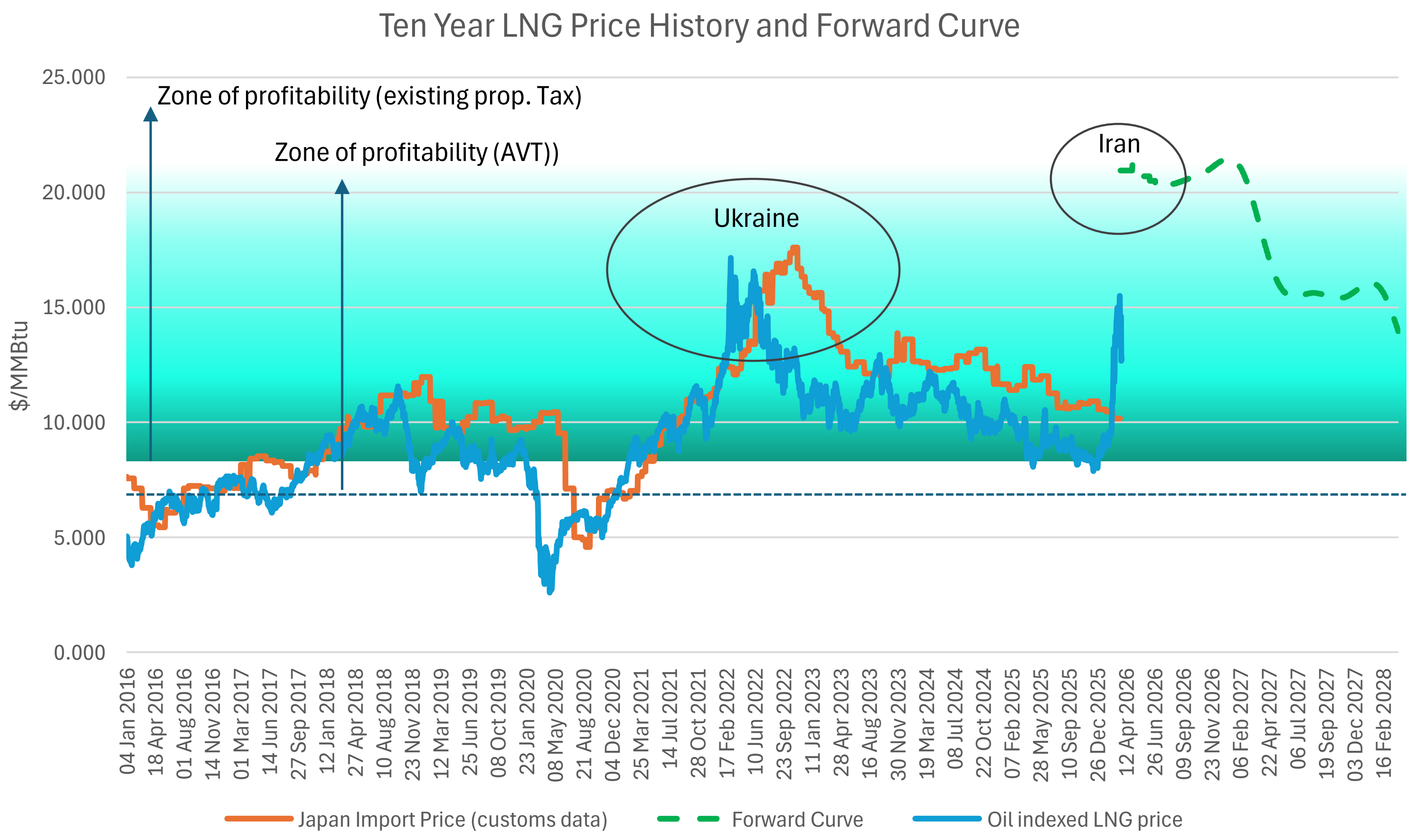
GaffneyCline model $7.81

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.

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. Zone of profitability uses base capex and $1/MMBtu gas price.

- Long term contracts typically reflect oil price trends, but rise 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.

Questions