

GaffneyCline Response to Questions Raised at House Resources Committee Meeting on April 1st 2026

From Rep Fields:

- 1) Rep Fields asked for advice on equity stake options for municipalities and the state.

Outside the US, equity participation by the state or national oil/gas company is very common, especially in Asia and Africa. Equity is often funded initially by the project sponsor by way of a “carry” which is then paid off using revenues from the project, once LNG is flowing and income is being generated. For the state or boroughs, it’s likely that other more efficient financing structures would be available.

State or borough equity investment in the LNG project, together with other commercial or financial entities, would result in some degree of commercial risk being supported by the state/borough. This could include, for example, exposure to cost increases between tariff rate setting/LNG sales commitment and completion of the infrastructure, higher than anticipated operating expenses, or fuel costs, and market changes that affect revenue. An example might be technology or regulatory changes impacting the demand for LNG, geopolitical developments, or other features which could conceivably result in some element of the LNG investment becoming “stranded” and subject to an impairment or write-off. Conversely, equity in the project typically becomes more valuable as time goes on, LNG prices rise, debt is paid off, and the project continues to operate beyond its design life, which is very typical for LNG projects in areas like Alaska where the gas resource is vast.

Another feature that is sometimes encountered in a dialogue about equity between project developers and host government is the difference in the way state equity dividends are paid, compared to commercial partners. For example, for budget planning reasons, sometimes state equity holders will be more sensitive to very low gas prices/revenue and are prepared to “give away” upside in exchange for downside protection. It’s unlikely this level of detail will be in the agreements between AGDC and Glenfarne, but might be something the legislature would want to consider as negotiations for a state equity position become more detailed.

A good example with many parallels to Alaska (indigenous stakeholders, remote communities, similar scale impact) is the equity structure that was negotiated for Papua New Guinea LNG (PNG). The so-called Kroton Equity Option (KEO) is a commercial option created under the PNG LNG Umbrella Benefit Sharing Agreement (UBSA) that allowed project-impacted provincial governments and landowner groups to acquire an interest in PNG LNG. Five PNG LNG impacted provincial governments (Hela, Southern Highlands, Fly

River, Gulf and Central) plus landowners along the project footprint benefitted from the aggregate 4.27% interest in the project. This was out of a total 19.4% state interest alongside Exxon and Santos who were the two key project developers. In this case, a preference share structure was used, but there was no carry from the project developers and funding of the equity was separately arranged.

- 2) How do other states/jurisdictions analyze projects like this ahead of fiscal commitments? How do the analyses other jurisdictions conduct compare to the analysis that LB&A has contracted with GaffneyCline for?

GaffneyCline and similar advisory companies are often engaged by state entities or government ministries to assist with negotiations with gas producers. It is common for the advisory company to work alongside an international law firm, who focus on the legal agreements that are often entered into between developer and host government. This can often take the form of a Host Government Agreement or HGA which sets out key fiscal characteristics, often by way of a unique project-specific arrangement which supersedes any standard oil and gas or corporate income tax mechanisms. It is on public record that GaffneyCline together with attorneys BakerBotts are the TA or Transaction Advisor to the Government Negotiating Team (GNT) in Tanzania. In that case the GNT comprises government ministers, and representatives of Tanzania Petroleum Development Corporation (TPDC) and their negotiations focus on terms with Shell and Equinor (formerly Statoil) governing the project. Similar GaffneyCline assignments exist in Papua New Guinea. With the various forms of government that apply in LNG jurisdictions, there is no standard approach, but in general the dialogue between host government committee and the project developers would be held largely behind closed doors, with selected outcomes debated or approved in a public or legislative forum. Negotiations or dialogue exclusively carried out in public meetings would be unusual for something as complex as an LNG project.

The scope of work for assignments such as the ones highlighted above could include economic modelling of certain features of the project, especially those involving state revenue, examining sensitivities to key features such as capital cost or LNG sales price, and modelling the benefits and risks associated with state equity, and certain types of dividend.

Where an “Open Book Economic Model” or OBEM is used to support the dialogue between developer and host government, GaffneyCline and similar advisors would typically assist in the development and auditing of the OBEM. They would then use the OBEM framework to establish project economics under a variety of government take and equity scenarios to

help conclude contractual arrangements that properly reflect the value of the host nations resources.

In many LNG negotiations the Domestic Market Obligation (DMO) is a key part of the dialogue between government and project developers and focus on the volume of gas to be made available, and the price. There are some parallels therefore with the AK LNG project and the phase I Gasline proposal and in-state supply. While aspects of the pipeline and supply tariffs to in-state customers are arguably already addressed through existing legislative or regulatory mechanisms, it would not be unusual to see these separately addressed as part of a wider negotiation between the state and project sponsors.

Finally, local content and skills development are also often features of the wider agreements entered into by project developers.

3) Rep Fields asked for AGDC to share their modeling with the Legislature.

As noted above, in many LNG developments where project economics and state participation has far-reaching effects on the host government economy, a detailed discussion often takes place using an agreed model (Open Book Economic Model or OBEM) which can greatly facilitate transparency and openness regarding government take and other key terms.

From Rep Saddler:

1) Rep Saddler would like a model of the effect of the 1% annual increase to AVT in HB 381.

Detailed modelling is ongoing, but the nominal 1% annual increase¹ in perpetuity might reasonably be expected to give rise to a slowly decreasing revenue in real terms, using a standard inflation assumption of 2% per annum.

Based on an initial 3 bcfd of throughput (which excludes estimates of in-state demand) the initial 6c per mcf would generate around \$65.7m per annum in state revenue (though there would be approximately a 10% reduction in aggregate tax revenue due to the lowering of state corporate income tax assuming if it were applicable). Taking a 2% inflation value and a 1% indexation, this would fall to around \$60m after 10 years of operation.

2) Rep Saddler would like to know if all other LNG projects get tax relief.

¹ Assuming the intent of the bill is for the escalation to be nominal, rather than on top of some kind of inflationary index.

It would be true that some kind of tax relief would apply to all LNG projects in every jurisdiction, but certain tax increases or other changes in government take may also be present. A more accurate statement might be to say that LNG projects typically benefit from highly tailored tax, fiscal and regulatory frameworks that are developed to address the unique features of each project. The more significant the project is to the host nation economy, the more complex and heavily negotiated the terms of the fiscal agreements.

- 3) Do other LNG projects include impact aid to municipalities or states as part of authorizing or enabling legislation?

Some kind of property tax or revenue for local communities is typical for LNG projects, but since many projects are built in very low population areas, the sums of money are relatively small. For example, a property tax applies to LNG Canada in Kitimat BC but it amounts to only C\$1.7million in year 1 and is capped at C\$9.7m. Alaska's current property tax mechanism results in significantly higher taxes than in all other LNG jurisdictions, which is why it's been under discussion since the Stranded Gas Development Act (2004), as well as the Heads of Agreement between ExxonMobil, ConocoPhillips, BP and the State of Alaska (2014) and SB 138 (2014).

Sometimes, funding for communities goes beyond compensating for the financial impact of construction, and extends to such things as building a skills development center to train up local staff, funding community facilities, and in promoting other opportunities to improve standard of living in the host country or community.

The benefits to impacted landowners referred to in the description above of the PNG LNG equity mechanism also include such things as community development agreements and other benefits from which affected communities could benefit.

- 4) Rep Saddler question re Excel model etc.

GaffneyCline has prepared a high level excel spreadsheet to estimate the tariffs that would be required to generate an adequate project return, under certain capital cost and operating cost assumptions, with and without non-recourse finance/capital structure. However, this is of limited use without actual project data, most particularly the current capital cost estimates developed by Worley. It can enable some conclusions to be drawn by taking an assumed LNG delivery price, using historic and forward curves, and an upstream gas purchase price, and then assessing what level of capital cost could be supported if the project is required to deliver a certain rate of return (usually a 10% post tax Internal Rate of Return, IRR, is taken as the benchmark). This is the modelling that was used to illustrate the "zone of profitability" on the DOR breakeven matrix, and the associated slides showing hypothetical netback to the north slope.

- 5) Rep Saddler asked if we take a risk by locking in property taxes early, before considering other policy levers that could or would be needed to enable the project.

As noted in the HRES meeting, it is beneficial to establish the fiscal architecture governing the LNG project early on, to provide a clear framework for developers. This includes such things as upstream tax arrangements, corporate income tax, sales tax and duties (if applicable). The property tax mechanism that exists in Alaska is incompatible with the capital requirements and revenue pattern typically seen in an LNG project and addressing that could be considered part of the fiscal architecture.

An AVT mechanism appears to be much more aligned with LNG economic evaluation, but whether the 6c/mcf figure is appropriate in the context of project economics is early to say. This more comprehensive evaluation would need input mainly on capital cost and debt structure (including whether or not the federal government offer loan guarantees). Also, if the amount of AVT collected is intended to reflect the financial burden encountered by a particular borough, then establishing that financial impact on the borough would also need to be understood with a reasonable degree of accuracy.

As noted, the legislature will have many opportunities to consider adjustments to tax rates as the project progresses. An approach whereby an AVT framework is agreed, but the tax rate itself has the potential to be revisited (potentially within certain bounds) prior to FID, could be a way to provide additional clarity on fiscal architecture, but reserve a final determination on tax collected and how it is allocated between state and boroughs.