

CS for Senate Bill 280

Senate Resources Committee

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Basis of Opinion

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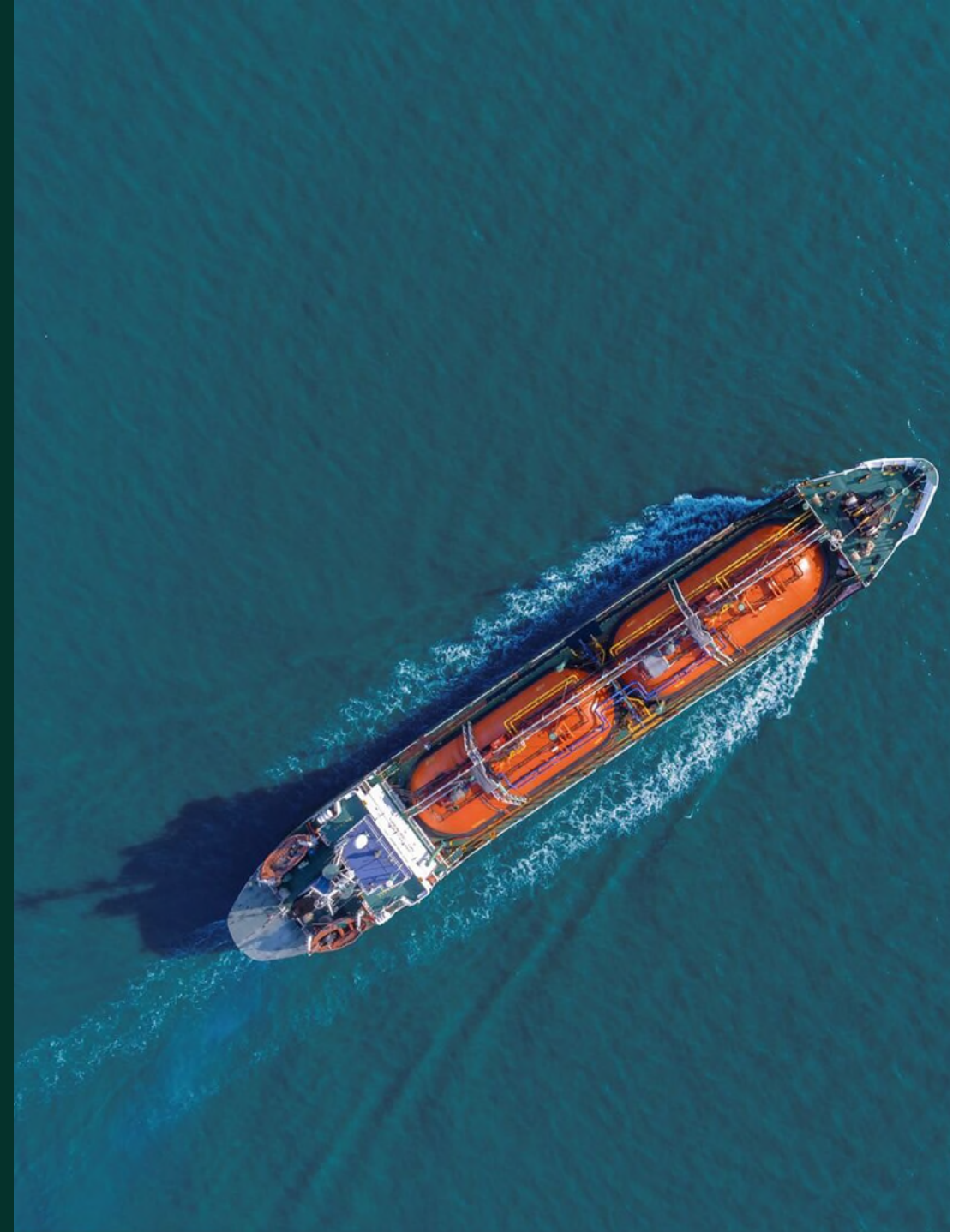
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Staff members who prepared this report hold appropriate professional and educational qualifications and have the necessary levels of experience and expertise to perform the work.

Agenda

Topics to be Covered

- **Strategic Considerations**
- **Project Breakeven Analysis**
 - Alternative Volumetric Tax (Section 33)
- **Phase 1 Pipeline Analysis**
 - Price cap provisions (Section 9)
 - Tariff implications
 - Return on Equity



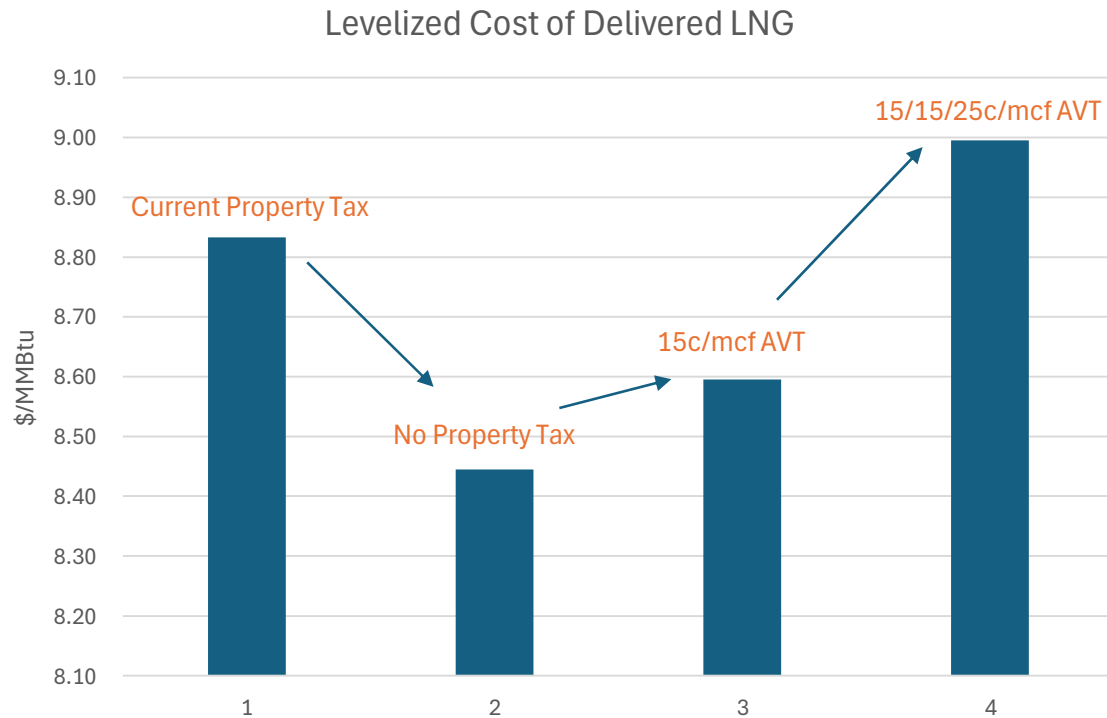
Strategic Considerations

- Fiscal framework has a fundamental impact on project returns, and chance of success.
- Constitutional duty of legislature requires financial diligence and analysis.
 - Consideration of project impact on wide range of economic factors.
- LNG is a global business and capital will flow to countries/projects with highest return and lowest risk.
- LNG industry is at a critical inflexion owing to events in Middle East. Time is of the essence.

- Alaska LNG project would transform the state economy, through tax revenues, employment, and wider gasification of the economy.
- Potential for low energy prices depends entirely on LNG exports in order to secure economies of scale.
- Alaska's tax regime is comparable to that of British Columbia, without either a property tax or AVT.
- The greatest competitive threat (for Pacific Basin supply) for Alaska lies in Canada, which benefits from similar cost structure and economics.
- Competitive cost of delivery with US Gulf Coast is also essential.

Project Breakeven Analysis with AVT

Scenario Comparison

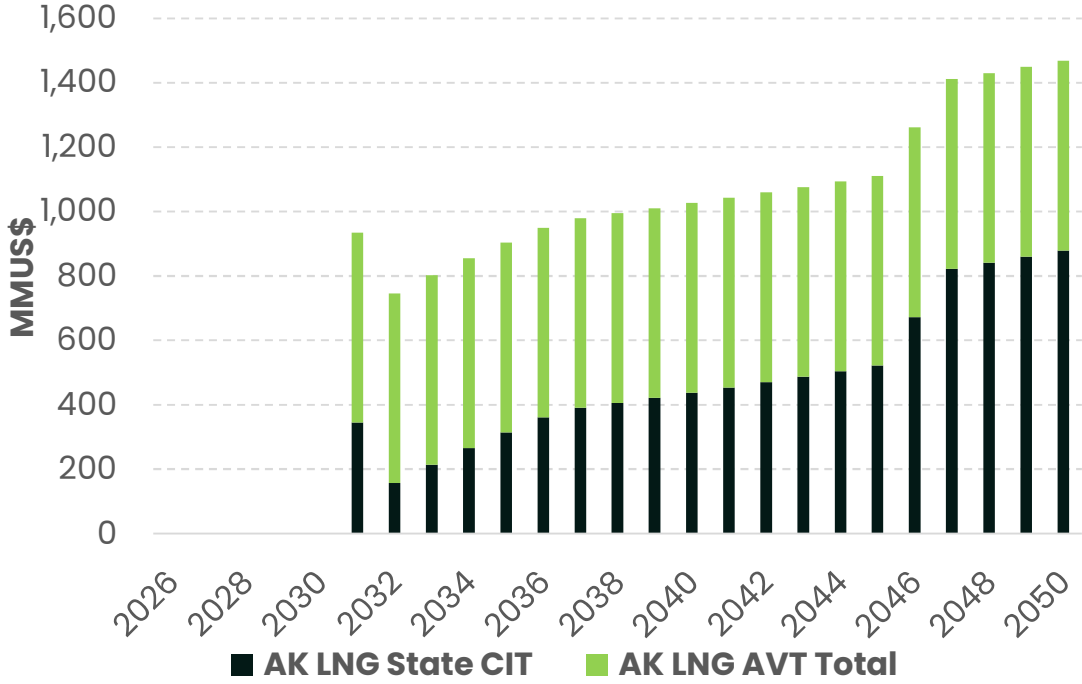


Note: preliminary analysis, based on multiple assumptions, subject to audit and further review. Final analysis may differ.

- Replacing 20 mill property tax/city tax with an inflation-linked volumetric tax.
- Benefits include:
 - Long term, stable taxation stream
 - Tracks project volumes, including future expansions
 - Does not decline with depreciation of asset.
- Potential downsides:
 - Relatively high rate of taxation
 - No front-end cost mitigation for project
 - May give rise to concerns from external stakeholders

AVT and CIT Profile

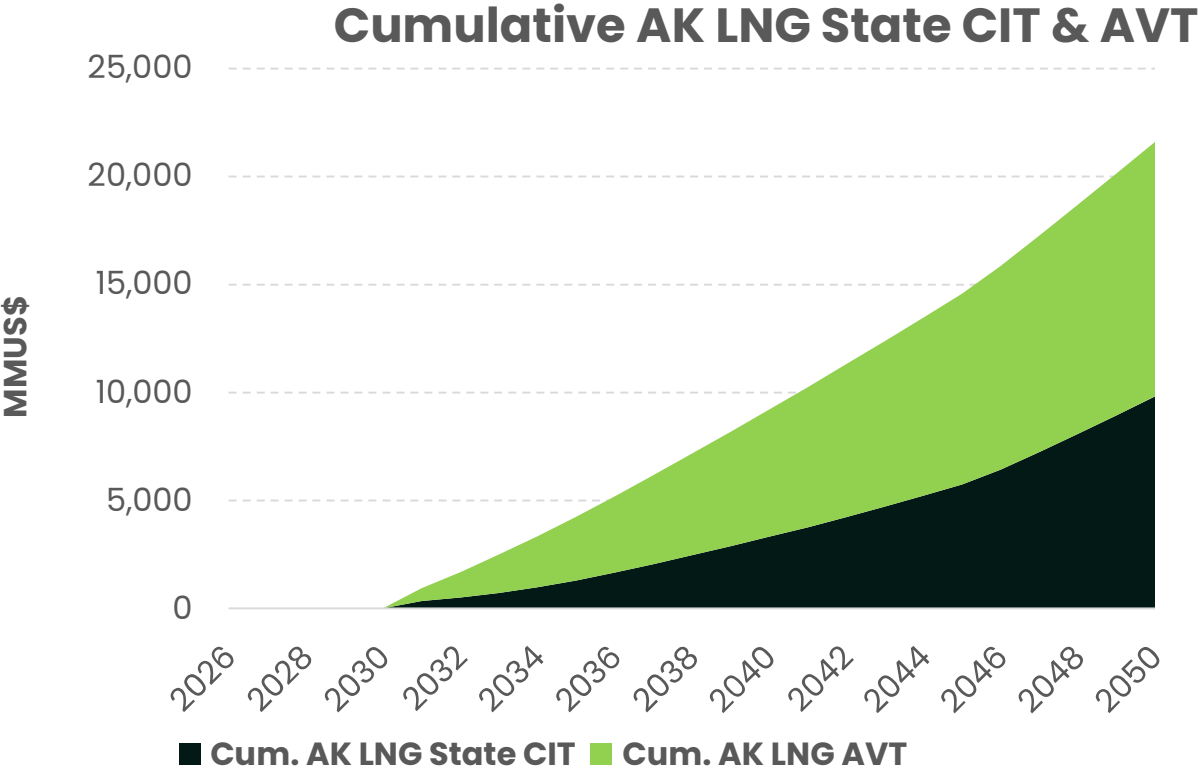
AK LNG State CIT & AVT



- Alternative volumetric tax generates about \$650m in annual taxes after start of commercial operations.
- State CIT rises from \$157m in year 2 of operation, to \$890m in 2050

Note: preliminary analysis, based on multiple assumptions, subject to audit and further review. Final analysis may differ.

Cumulative CIT and AVT



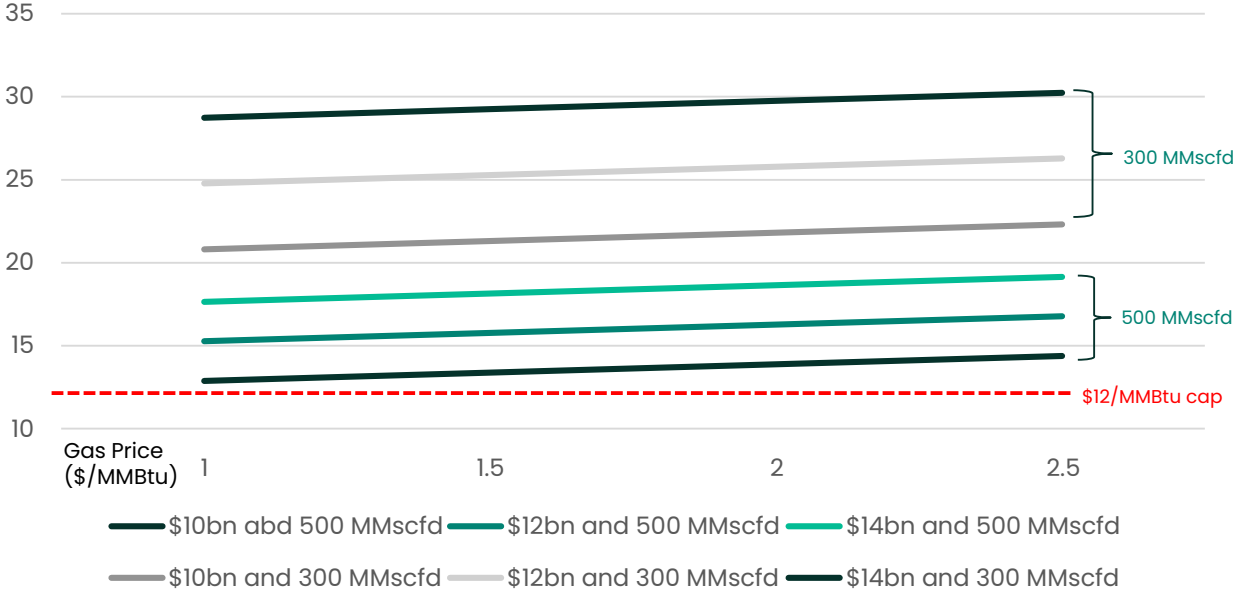
Note: preliminary analysis, based on multiple assumptions, subject to audit and further review. Final analysis may differ.

- AVT and State CIT cumulatively deliver around \$21 billion in state revenues in the time up to 2050.
- Just over half this revenue arises from the Alternative Volumetric Tax

Pipeline Tariffs and Supply Cap

Price Cap vs Tariff for 10% Project Return

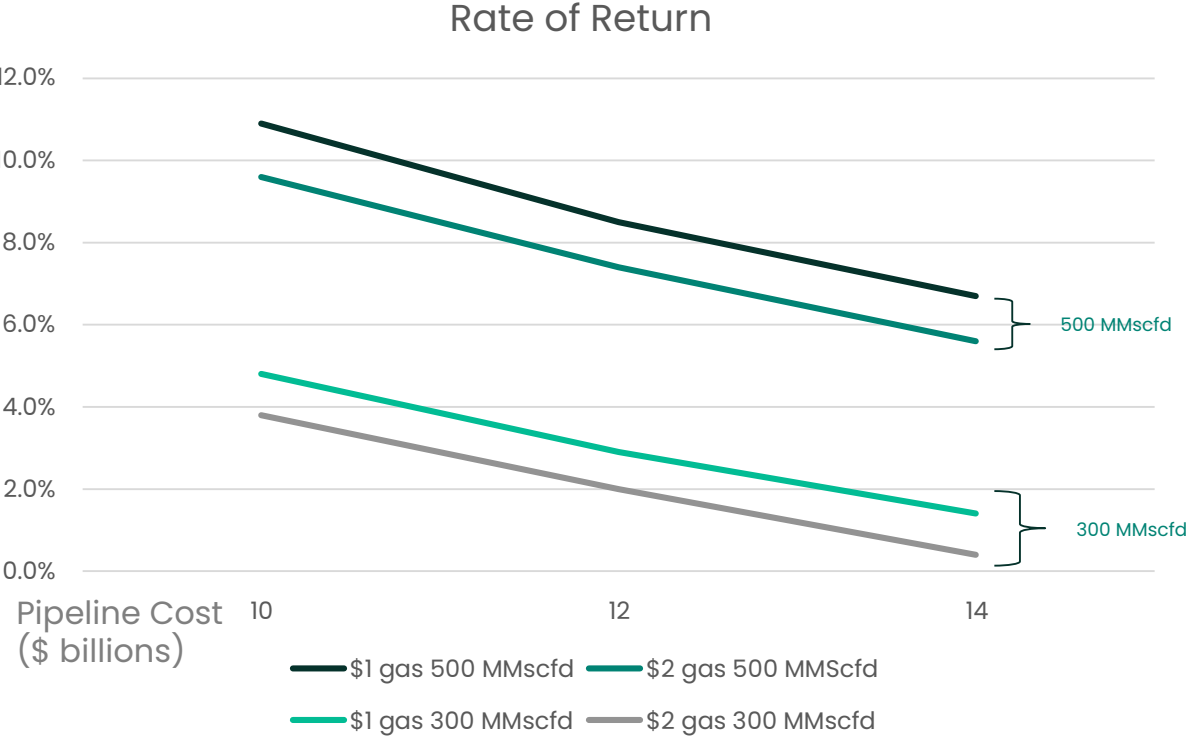
Delivered Gas Price @ 10%ROE



Note: preliminary analysis, based on multiple assumptions, subject to audit and further review. Final analysis may differ. Analysis assumes no property tax or AVP during in-state supply phase

- A 42" pipeline is oversized when considering only in-state demand
- Low flow rates significantly impact levelized cost of transportation (ie pipeline tariff)
- Tariff is highly sensitive to flow, 500 MMscfd case starts to align with \$12/MMBtu supply cap, at low upstream gas purchase price, and a \$10bn capex budget.

Pipeline Rate of Return at \$12 cap



Note: preliminary analysis, based on multiple assumptions, subject to audit and further review. Final analysis may differ. Analysis assumes no property tax or AVP during in-state supply phase

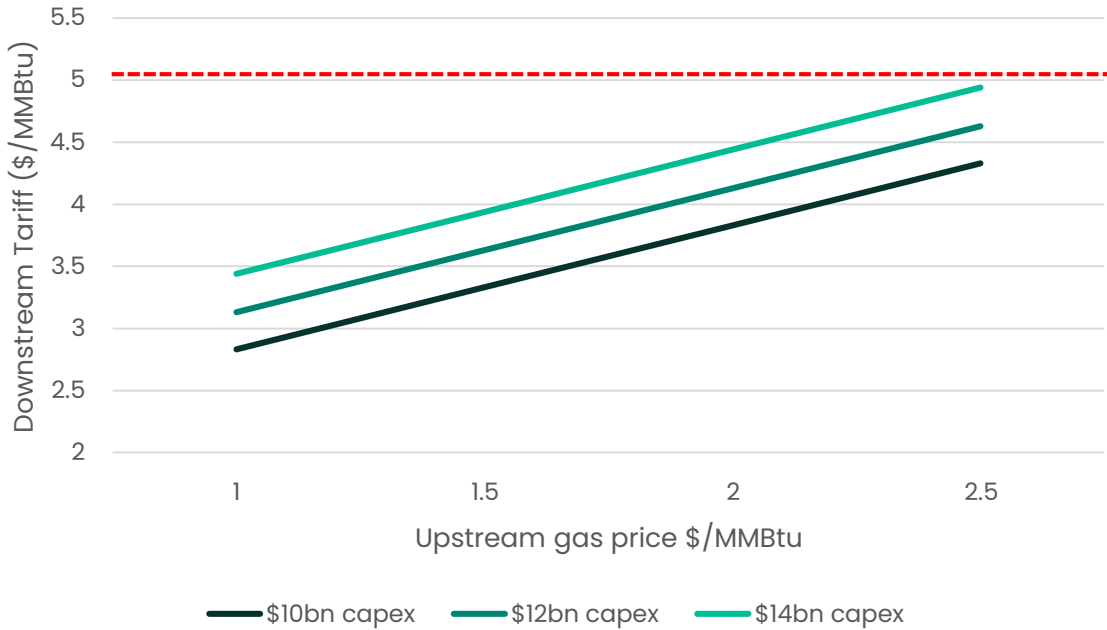
- Pipeline rates of return for 500 MMscfd scenario are in region of investor expectations for a long-term credit-worthy shipper.
- 300 MMscfd scenario does not appear to be within range of likely investor interest.

Regulated Pipeline Average Returns

<u>Pipeline Name</u>	<u>Notes</u>	<u>Year Ended 2020</u>	<u>Year Ended 2021</u>	<u>Year Ended 2022</u>	<u>Year Ended 2023</u>	<u>Year Ended 2024</u>	<u>Five-year average</u>
• Natural Gas Pipeline Company of America LLC		31.4%	33.8%	38.7%	38.7%	36.8%	35.9%
Northern Border Pipeline Company		19.6%	20.0%	23.9%	27.8%	27.4%	23.7%
El Paso Natural Gas Company, LLC		21.0%	20.3%	17.1%	24.7%	20.7%	20.8%
Tennessee Gas Pipeline Company, LLC		18.2%	19.6%	20.0%	18.8%	18.9%	19.1%
Transcontinental Gas Pipe Line Company, LLC		16.2%	18.1%	19.5%	18.1%	16.4%	17.7%
Southern Natural Gas Company, L.L.C.		16.6%	16.2%	18.9%	15.9%	15.8%	16.7%
Northwest Pipeline LLC		17.6%	16.7%	15.9%	14.2%	11.9%	15.3%
Northern Natural Gas Company		14.3%	16.6%	13.6%	14.0%	15.1%	14.7%
Kern River Gas Transmission Company		15.2%	17.3%	16.6%	13.2%	10.4%	14.5%
Gas Transmission Northwest LLC		20.8%	11.5%	12.9%	14.3%	12.4%	14.4%
Texas Eastern Transmission, LP		13.9%	10.1%	12.9%	13.5%	12.1%	12.5%
Transwestern Pipeline Company, LLC		11.9%	12.7%	14.5%	12.7%	10.5%	12.5%
ANR Pipeline Company		13.4%	11.5%	9.7%	12.3%	11.6%	11.7%
Enable Gas Transmission, LLC		8.9%	13.6%	16.7%	12.3%	3.4%	11.0%
Columbia Gas Transmission, LLC		12.4%	11.2%	10.8%	9.6%	8.4%	10.5%
Eastern Gas Transmission and Storage		11.4%	7.0%	10.7%	10.7%	10.6%	10.1%
Texas Gas Transmission, LLC		10.9%	7.6%	8.9%	7.4%	8.2%	8.6%
Rockies Express Pipeline LLC		4.9%	7.4%	9.9%	8.9%	8.7%	8.0%
Gulf South Pipeline Co., LP		5.3%	6.2%	6.5%	8.1%	9.2%	7.1%
Average earned ROE		16.5%	15.6%	16.0%	15.7%	14.1%	15.0%

Pipeline Rate of Return at \$5 cap

Tariff Implications at Full Flow



(Note: For full flow, additional \$2bn in capex for compression etc is added)

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- At a flow of 3,300 MMscfd economies of scale are fully realized.
- An additional \$2bn is added to pipeline nominal capex to address compression and other enhancements.
- A \$5 downstream cap on gas sales is manageable under all scenarios considered.
- In-state tariff may also be influenced by apportionment of costs and tariffs between in-state gas customers and the LNG project.

Other Commentary

Selected Other Provisions of CS for SB 280

- **S-corp vs C-corp Provisions**

- Major implication for tax take between federal and state government
- Significantly higher CIT revenue for state (depending on final equity partners)
- Key benefit is clarity for equity holders, prior to investment decision.
- Second order impact on project economics.

- **Transparency and Disclosure**

- DOR model appears to be approaching something similar to an Open Book Economic Model (OBEM).
- Confidentiality terms are important to safeguard commercial interests of stakeholders.

- **Disallowance of gas lease expenditures to ameliorate oil taxes.**

- Very material consideration for supply sources, particularly Point Thomson.
- Potential complexity around interpretation.
- Wider review of oil and gas tax and applicability to LNG project may be required.

Questions