

HB 381 version G, House Resources CS

House 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

- **Strategic Considerations**
- **Project Breakeven Analysis**
 - Alternative Volumetric Tax
 - Fairbanks Spur Implications
- **Borough Equity Participation**
 - Potential challenges for GTP Equity
 - Host community equity participation
 - Canada
 - Rest of World



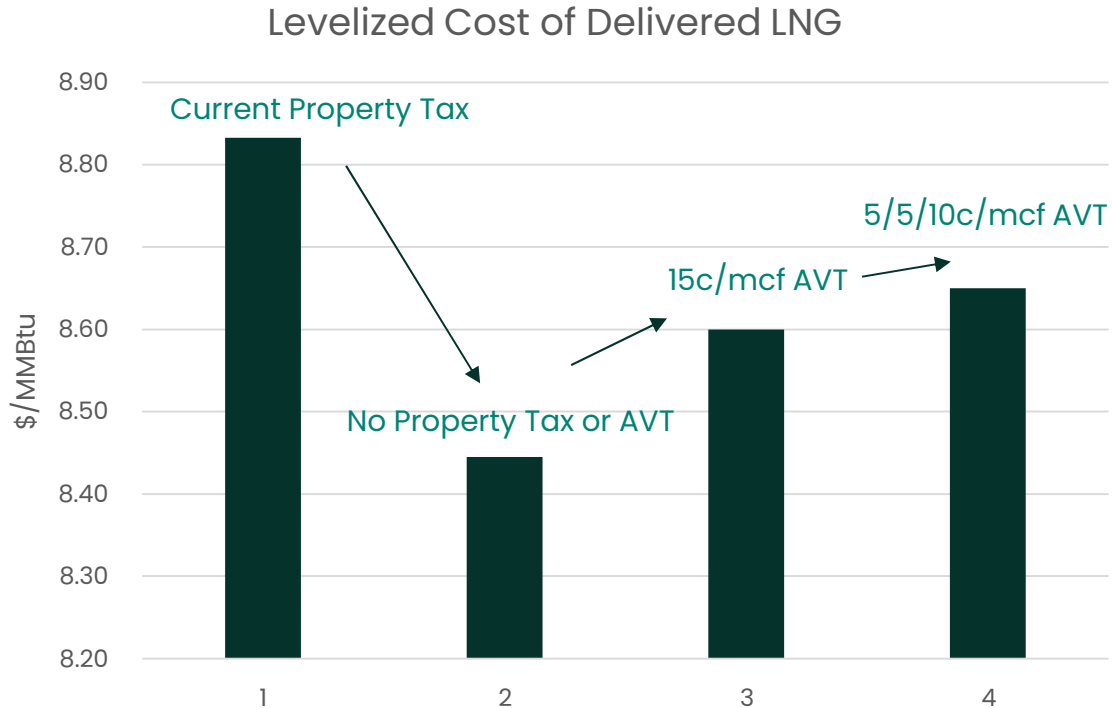
Strategic Considerations

- 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.
 - 5/5/10c per mcf framework reduces levelized cost of delivery by nearly 20c/MMBtu over current property tax
- Benefits include:
 - Long term, stable taxation stream
 - Aided by proscriptive allocation of AVT revenues
 - Tracks project volumes, including future expansions
 - Does not decline with depreciation of asset.
- Potential downsides:
 - Represents additional tax charge for project (over federal and state CIT)
 - No front-end cost mitigation for project, other than ramp up
 - May give rise to concerns from external stakeholders

Fairbanks Spur

- Additional cost of Fairbanks Spur has been quoted as between \$150 to \$200m
- At current gas consumption levels (1.5 bcf/annum), required additional tariff for the spur would be \$12-\$14 per MMBtu in addition to the wider gas pipeline network tariff, and upstream purchase price from gas producers.
- Conversion of 100MW of power from oil/diesel to natural gas could add a further 3.4 bcf per annum, with a commensurate reduction in tariff to less than \$4/MMBtu.
- If the cost of the spur were included in the wider pipeline network tariff, it would add around 2c/MMBtu to the total cost, shared between LNG export customers and other gas network customers (such as Southcentral)
- For phase 1 only (no LNG demand) tariff increase on wider network customers would be in the region of 20-30c/MMBtu

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Borough Equity Considerations

Equity Considerations for GTP

- GTP economics will be significantly boosted through §45Q Federal Tax Credit mechanism
- 7 MTPA (Of CO₂) at 85c/tonne for 12 years – over \$71m in aggregate tax credits.
- In order to monetize tax credit, projects typically utilize:
 - Tax Equity Structure
 - Credit Sale (§6418 transferability)
- Equity participation by Borough may complicate ownership and tax credit considerations.
- Potential for a “quasi” equity participation through other mechanisms, subject to suitable financial and tax structuring advice.

Impacted Community – Equity Participation (Canada)

Project (Location)	Liquefaction Type / Scale	Status (as of sources)	Community/Indigenous equity form	Equity % (community)	Other owners / partners	What the community represents
Cedar LNG (Kitimat, BC, Canada)	FLNG export facility, ~3.3 mtpa	FID announced (June 2024)	Direct plant equity (SPV / project-level)	50.1% (Haisla Nation)	49.9% Pembina	Haisla Nation (Indigenous community; band government)
Woodfibre LNG (near Squamish, BC, Canada)	Onshore liquefaction + export, ~2.1 mtpa	Under construction / in development	Equity option (reported) + regulator role	Option reported: 5%	Plant SPV stated as 70% Pacific Energy / 30% Enbridge	Squamish Nation (Indigenous government representing residents adjacent to site)
Ksi Lisims LNG (near Gingolx / Pearse Island, BC, Canada)	Proposed FLNG export facility, ~12 mtpa	Similar stage of development to AK LNG	Value-chain equity (element): feed pipeline (PRGT); plant equity unclear	Pipeline: 50% (Nisga'a gov't)	Pipeline: other 50% stated as Western LNG	Nisga'a Nation (treaty/self-governing Indigenous nation; local landowner)
LNG Canada (Kitimat, BC, Canada)	Large-scale onshore LNG export terminal 14 MTPA (additional phase awaiting FID)	Operating/ exporting	Value-chain equity (element): marine export/escort services	Majority-owned by Haisla Nation (no % given in cited pages)	JV partner: Seaspan ULC (HaiSea Marine)	Haisla Nation (host Indigenous community)
NeeStaNan LNG (Hudson Bay / Port Nelson concept, Manitoba, Canada)	LNG export concept (planning stage; corridor/port concept)	Planning / feasibility; export authorization referenced	Indigenous-owned LNG project (planning-stage)	Majority-owned subsidiary of Fox Lake Cree Nation in CBC	Fox Lake Cree Nation / NeeStaNan	First Nations-led proponents

Impacted Community – Equity Participation (Papua New Guinea)

Project	Country / Location	LNG asset type & scale	Status	Host/landowner equity mechanism	Equity % for host/landowners (as stated)
Papua LNG	PNG (Gulf & Central provinces)	Proposed LNG project (second major LNG project)	Pre-FID / progressing through regulatory steps	Statutory / benefit package equity for landowners held by MRDC	2% equity for landowners, held by MRDC “free carried” (per report)
PNG LNG	PNG (multi-province; plant near Port Moresby)	Onshore liquefaction/export	Operating since 2014	Landowner/provincial equity held via MRDC structures + UBSA/LBSA	Mineral Resource Development Company (MRDC) listed at 2.8%; 2.7% free equity PI for landowners/Local Level Governments (greenfield)

Questions