GaffneyCline™
energy advisory

SB 280 CS Version G, Senate Resources CS

Senate Resources Committee

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Nicholas Fulford
Senior Director, LNG and Energy Transition

Basis of Opinion

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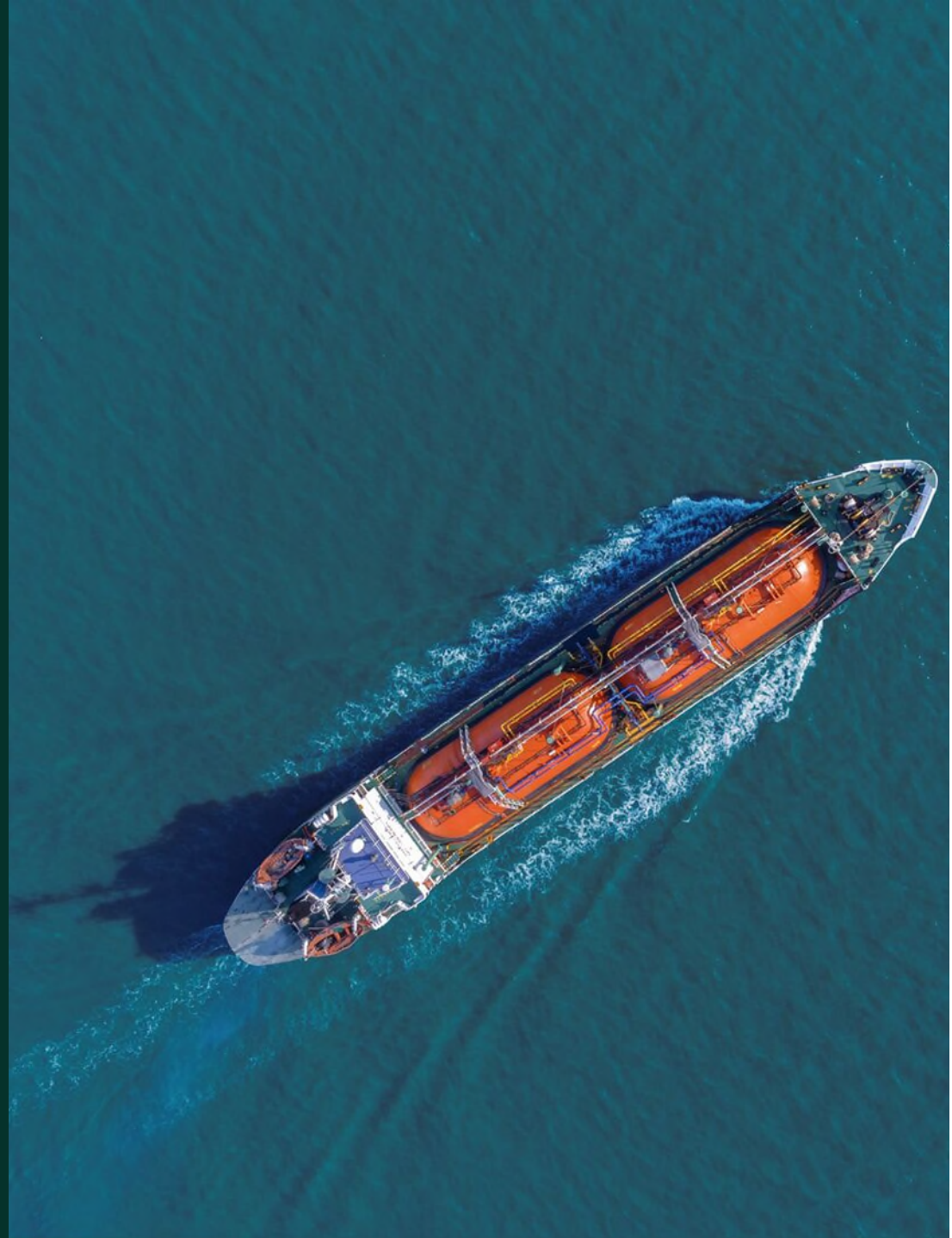
Staff members who prepared this report hold appropriate professional and educational qualifications and have the necessary levels of experience and expertise to perform the work.

Agenda
Topics to be Covered

- ***Economic Modelling Considerations***
- ***Correction to the Record from April 28th***
- ***Impact of AVT on LNG Sales Price***
- ***Benefits of a Standardized Modelling Tool***

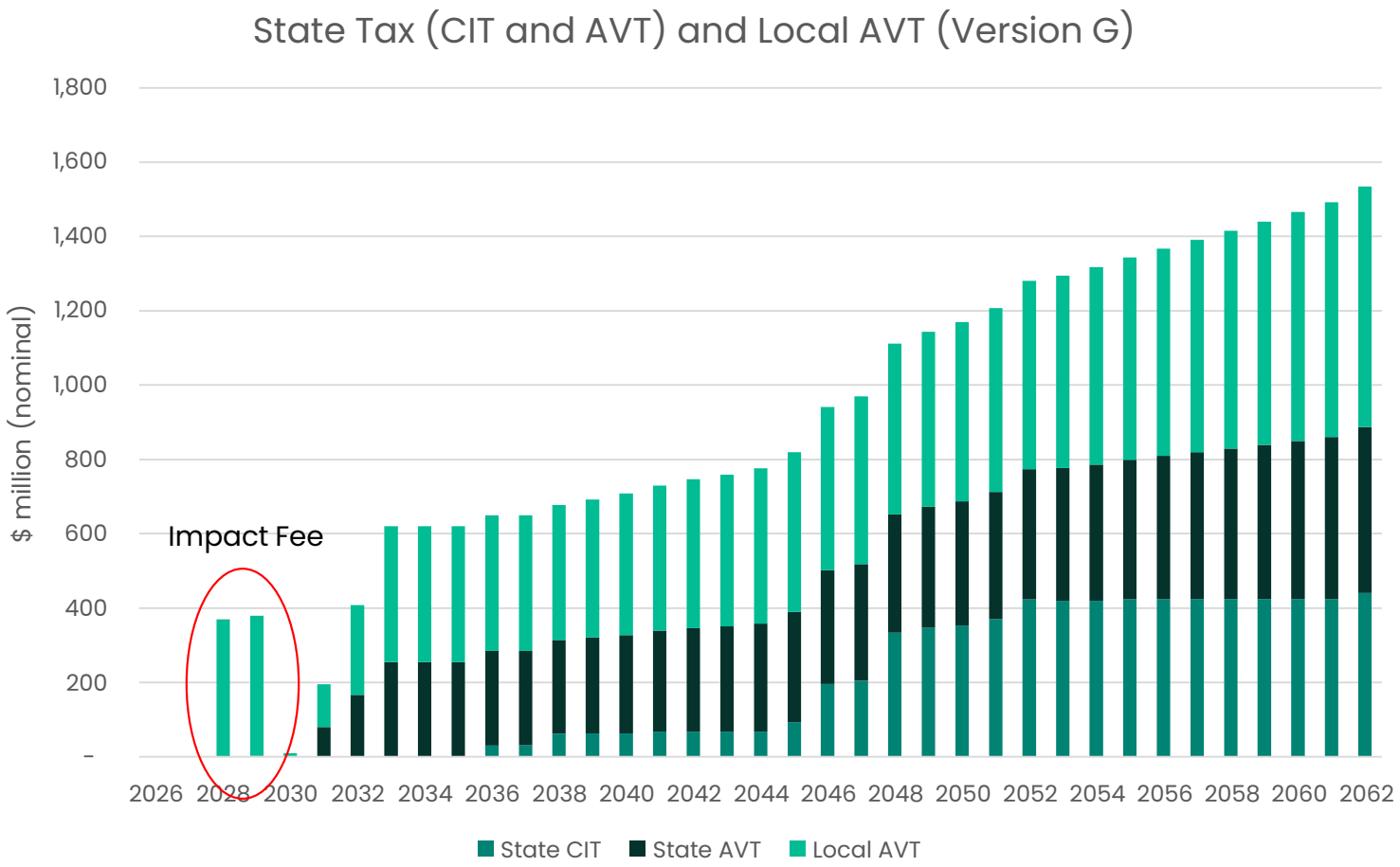


Economic Modelling Considerations

- LNG projects are complex, involving both upstream and midstream features, in addition to significant financing aspects.
- Alaska's tax statutes are also complex, giving rise to a significant challenge for appropriate modelling and evaluation.
- Projects typically strive to establish a standardized economic model to enable all stakeholders to have a tool through which to evaluate different assumptions and outcomes.
- These models are typically developed still further when debt and project finance is introduced.
- Degree and detail of analysis required to support legislative decision making requires a sophisticated and detailed model.

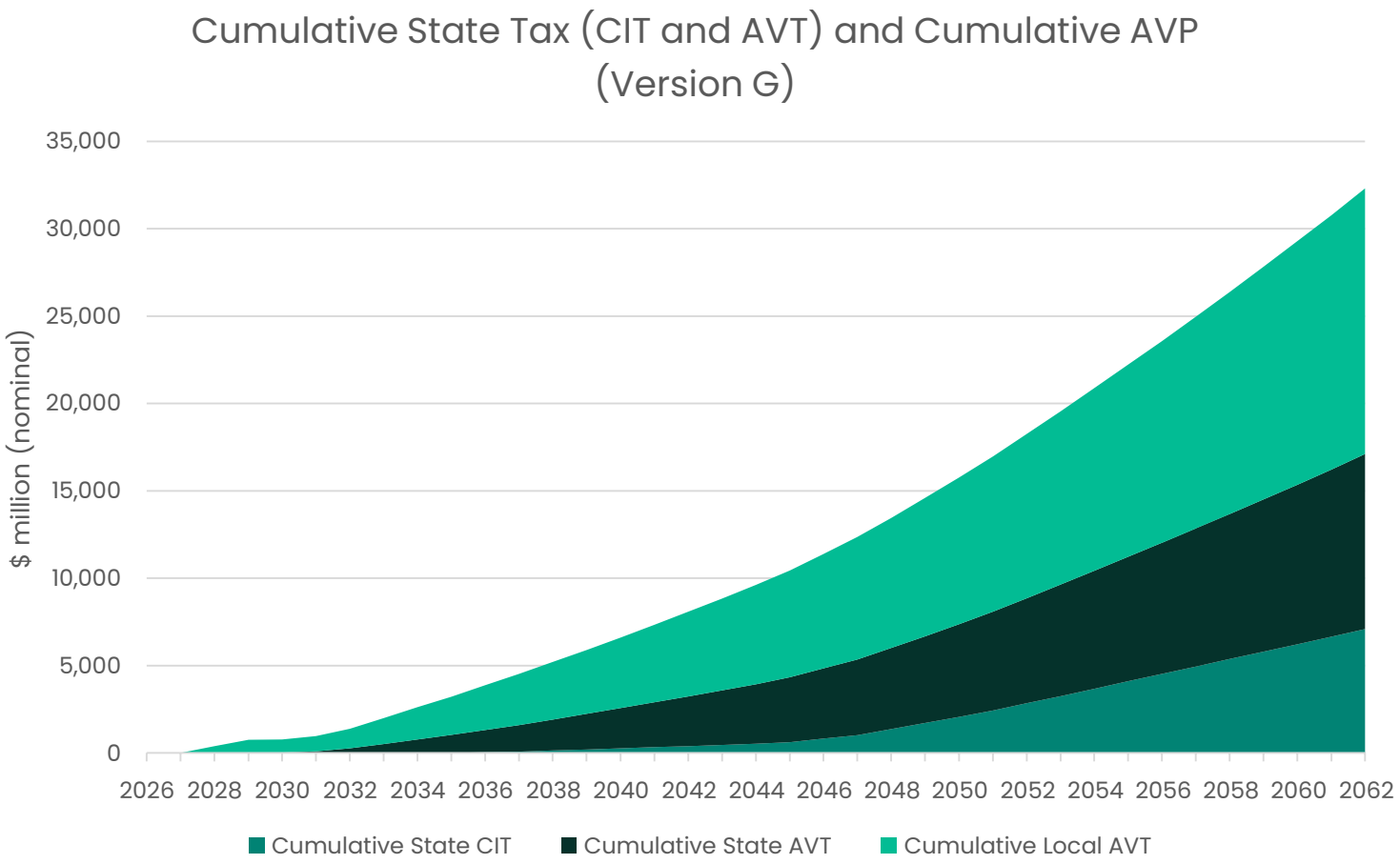
Projected State Tax Revenues from AVT and CIT [corrected from 28th April]

AVT and CIT Profile [Corrected]



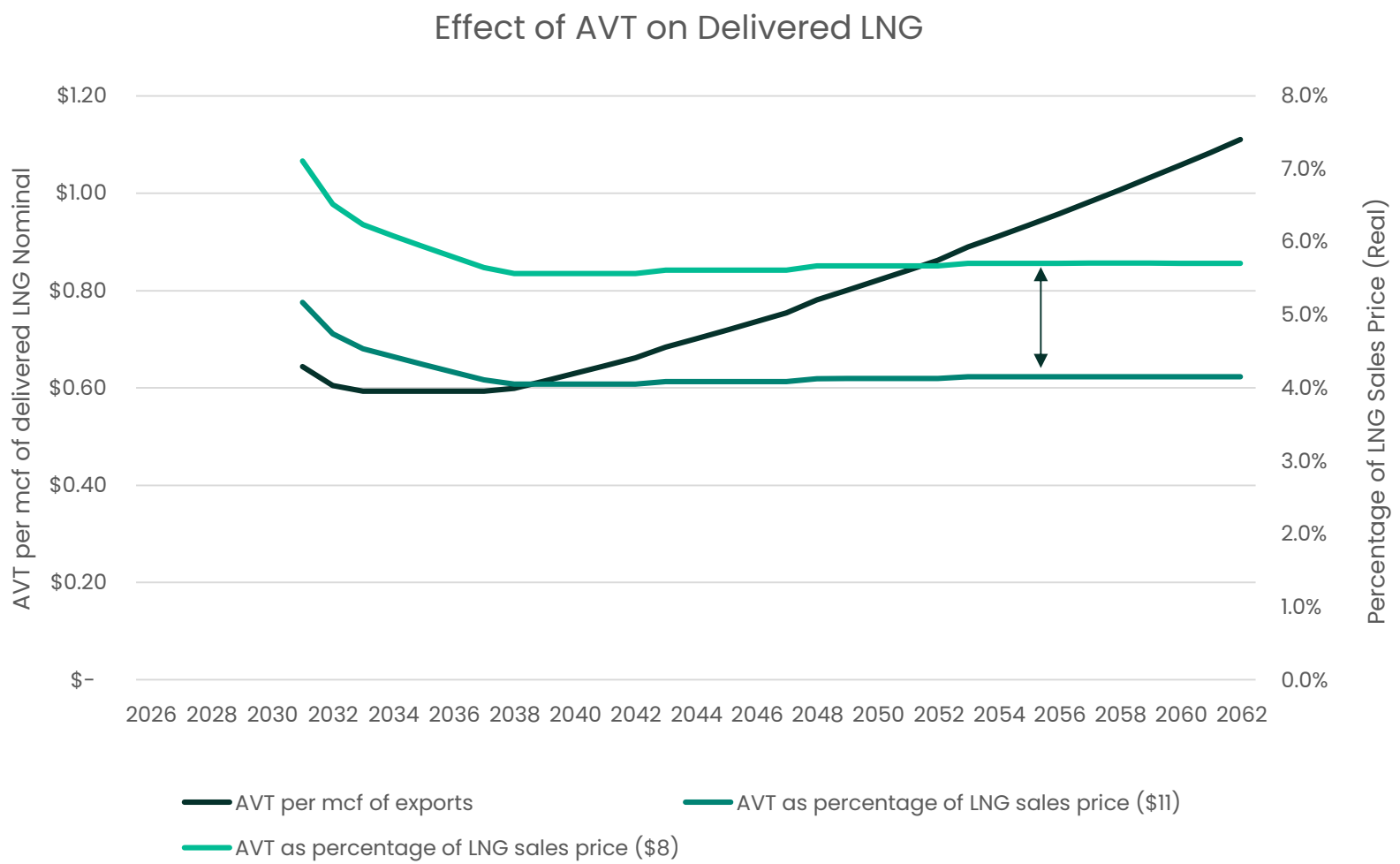
- Alternative volumetric tax generates just over $600m in local and state taxes after start of commercial operations.
- After the start of the escalation mechanism, combined local and state AVT revenues are projected to rise to just over $1bn by 2059
- State CIT projected to reach $353m in 2050 and $424m in 2060
- Combined AVT and State CIT is $1.2 bn in 2050 and $1.5 bn in 2060

Cumulative AVT and CIT [Corrected]



- AVT and State CIT cumulatively about $15 billion in state and local revenues in the time up to 2050.
- Of that, about half ($8.4bn) is from State AVT and State CIT
- Cumulative AVT (state and local) and CIT taxes by 2060 amount to just over $30bn
- Majority of tax contribution arises from the AVT

AVT Impact on Cost of Delivered LNG



- Economic model solves for anticipated return.
- Alternative approach is to solve through LNG delivered price, determined by market.
- In nominal terms, the AVT adds around 60c/MMBtu to the cost of LNG delivered to Asia, rising to over $1.
- Equivalent to about two thirds of the shipping costs.
- In real terms, it could represent about 4% to 6% of the landed cost of the LNG.
- Front end AVT burden is slightly higher than long term.

Economic Modelling Recommendations

Economic Modelling Recommendations

- Current model hosted by DOR is the result of over a decade of development through multiple administrations.
- Development has benefitted from multiple agencies, consultants and producers.
- The level of sophistication would be hard to match in any new model and would take months to develop and audit.
- Recommendation:
  - Establish the model hosted by DOR as the de-facto project model.
  - Marginal improvements / alternative scenarios could be provided through:
    - Audit of model.
    - Comparison with other LNG project models.
    - Evaluation of input assumptions (eg rates or return, depreciation)

Questions