



HB183

Presentation to House Community & Regional Affairs

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Components of Property Tax that need to be Considered for the AKLNG Project

- Impact Payments during the construction period in lieu of property tax payments
- **Durable and predictable property tax payments during operational period**
- Distribution of revenues among State and Local Government entities

Initial Feedback from the Municipal Advisory Gas Project Review Board (MAGP Board)

- **Fair**
 - Must be fair and equitable to all stakeholders
- **Clear**
 - Must be easily understood
- **Robust/Durable**
 - Should be able to cope with future changes
- **Unambiguous**
 - Should not be subject to judgment and interpretation
- **Commercially Sound**
 - Must not exceed an amount that would unreasonably impact the AK LNG project ability to compete in global markets

Initial Feedback from AK LNG Producers

- **Simpler is better**
 - Fewer variables is preferred
- **Prefer a general property tax formula**
 - Enacted as a law of general application
 - Meets AK LNG Project economic expectations
 - Acceptable to the municipalities
- **Prefer a flow related property tax payment**
 - Fixed unit rate per actual (not design) throughput basis (e.g., \$/mcf or \$/mmbtu)
 - Adjusts annually by known non-variable factors

Formulaic Interpretation of Initial Feedback

$$\left[\text{Actual Cost} \times \left(\frac{\text{Actual Gas Flow}}{\text{Design Throughput}} \right)^n \times \frac{\text{Year (n) Index} - y}{\text{Year (0) Index}} \times 20 \text{ mills} \right] \times \text{Adjustment Factor}$$

Additional Feedback from AK LNG Producers

1. Mill Rate

- Currently, the proposed LNG plant and terminal (possibly the GTP also) are excluded from the definition of “taxable property” subject to the 20 mill rate under AS 43.56. Mill rates under AS 29.45 are sometimes lower and prevailing rates in the relevant jurisdictions should inform final Mill rate in the LNG (and possibly the GTP) PILT formulation.

2. Capital Cost

- The Project cost estimated at FEED or FID (Final Investment Decision) in lieu of actual Project cost determined after completion could be adopted for additional simplicity and to remove as constructed actual cost uncertainty for an FID decision.

3. Depreciation/Obsolescence

- Depreciation/obsolescence are acknowledged features of the current methodology, and a factor should be included in the formula to address them.

4. Flow Adjustment

- The HOA between the parties contemplates payments in lieu of property taxes (PILT) for each property based on a simple unit rate per throughput basis.
- Use of an exponent may detract from the ability to use a single, durable formula for debottlenecking and expansion.
- Flow variations could be dealt with through monthly averaging.

5. Inflation

- Inflation is an acknowledged feature of the current methodology (e.g., replacement cost), but represents a future variability risk. A fixed escalation would remove that risk.

6. Adjustment Factor

- This factor could be viewed as arbitrary. A formula that is sufficiently robust would avoid use of an adjustment factor.

MAGP Board Recommendation (March 13, 2015)

MAGP Board Recommendation (Formula)

$$\left(\text{Capital Cost} \times (1 + e)^m \times \text{Depreciation Factor} \times \left(\frac{\text{Actual Throughput}}{\text{Design Throughput}} \right)^n \times \text{Mill Rate} \right)$$

n = exponent to dampen effect of actual flow

e = annual escalation rate

m = years of operation (startup = 0)

MAGP Board Recommendation (Formula Values)

Capital Cost = FID estimate x 1.1

e = 4% per annum

Depreciation Factor based on 50 year floating life

Actual Throughput = 5 year floating average

n = 1

Mill Rate based on current statutes for all Project assets including LNG Plant

Subsequent Feedback from AK LNG Producers

1. Formula Values

- Commercial soundness can be accommodated through adjustments in the formula

2. Capital Cost

- If use constructed actual cost instead of pre-FID estimated cost, then a cost overrun would damage project economics, so consider a mechanism that doesn't exacerbate consequences of overrun.

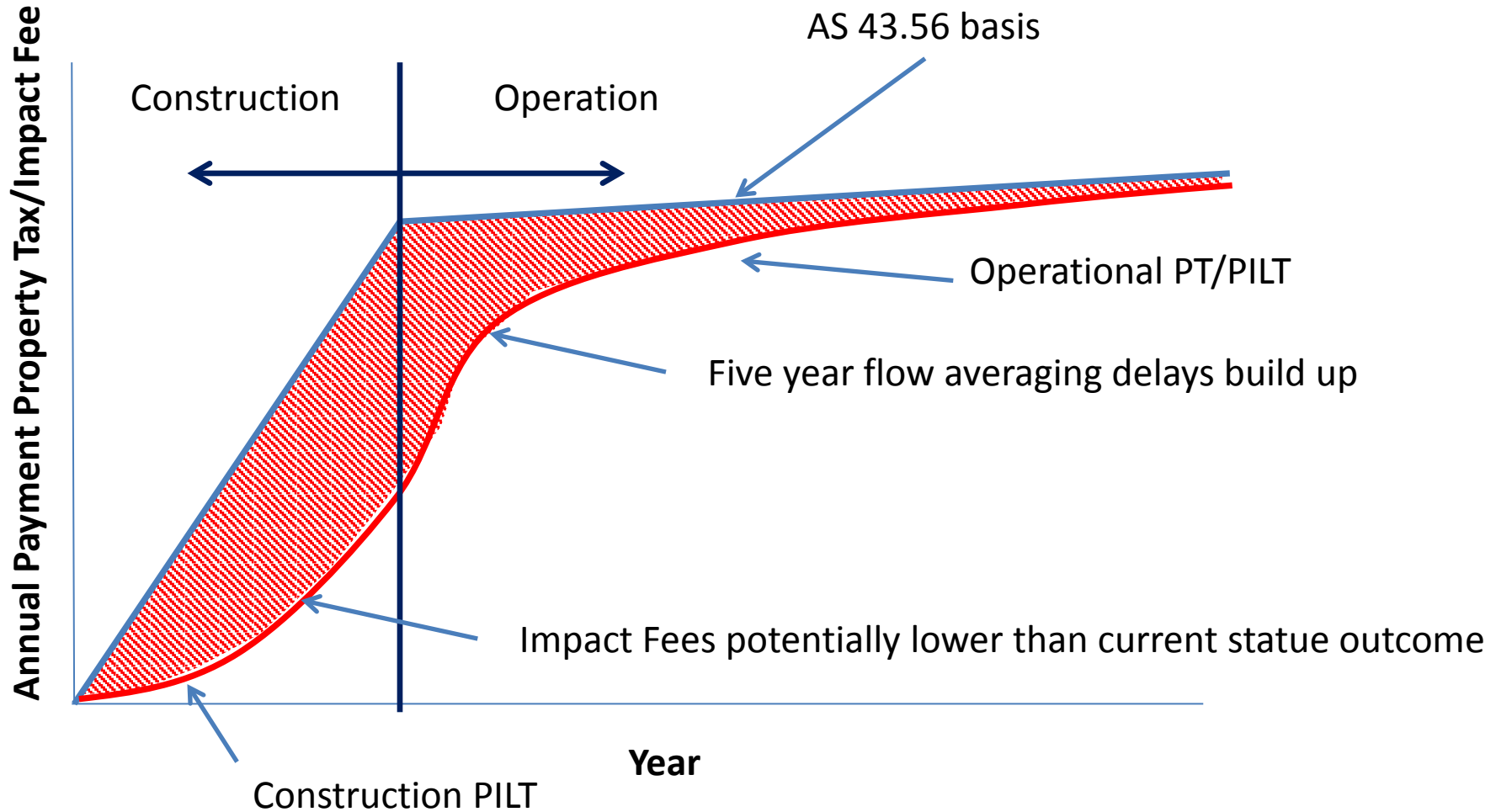
3. Depreciation/Obsolescence

- Instead of using depreciation formula, consider averaging asset value over time (depreciating to a fixed minimum), and applying a single averaged factor.

4. Inflation/Escalation

- Consider slope (i.e., lower initial PT, with an agreed escalation)

Potential Project Benefits



**Schematic, not to scale, representative of one of a number of potential outcomes*

HB 183 Recommendation

$$\left(\text{Original Cost} \times \text{Inflation Factor} \times \text{Depreciation Factor} \times \left(\frac{\text{Actual Throughput}}{\text{Design Throughput}} \right) \times 20 \text{ Mills} \right)$$

Original Cost = Fixed by pre-FID project specific data/fiscal agreement

Inflation Factor = Fixed by fiscal agreement

Depreciation Factor = Fixed by fiscal agreement

Actual Throughput = Operational measurable

Design Throughput = Fixed by pre-FID project specific data

Mill Rate = Fixed by Statute, with total take adjusted by fiscal agreement

THANK YOU

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