



Alaska LNG: Fiscal Implications and Potential Cash Flows

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Deputy Commissioner
Oct 4, 2014

Alaska Department of Revenue



AKLNG Guiding Documents: Heads of Agreement, Memorandum of Understanding Enabling Legislation: SB 138 (passed 2014)

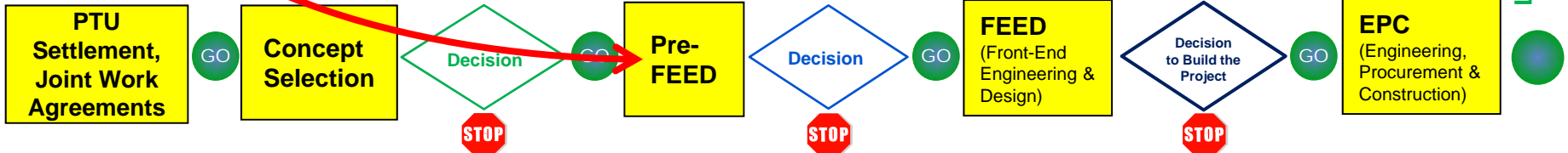
- The Heads of Agreement (HOA) and Memorandum of Understanding (MOU) provide guidance on how the powers in SB 138 will be used
- At each stage in the project, there are “on-ramps” and decision points for Legislative and public review
- Commitments by the State will be made commensurate with progress by the project

Alaska LNG – Work Plans / Key Decision Points (Oct12)



Requirements to Take Next Step:

- Viable Technical Option(s) Identified
- Government Support
- Permits / Land Use Achievable
- Potential Commercial Viability
- Viable technical option
- Government Support
- Permits / Land Use Underway
- Potential Commercial Viability
- Secure Permits / Land Use / Financing / Key Commercial Agreements
- Confirm Commercial Viability
- Execute EPC contracts



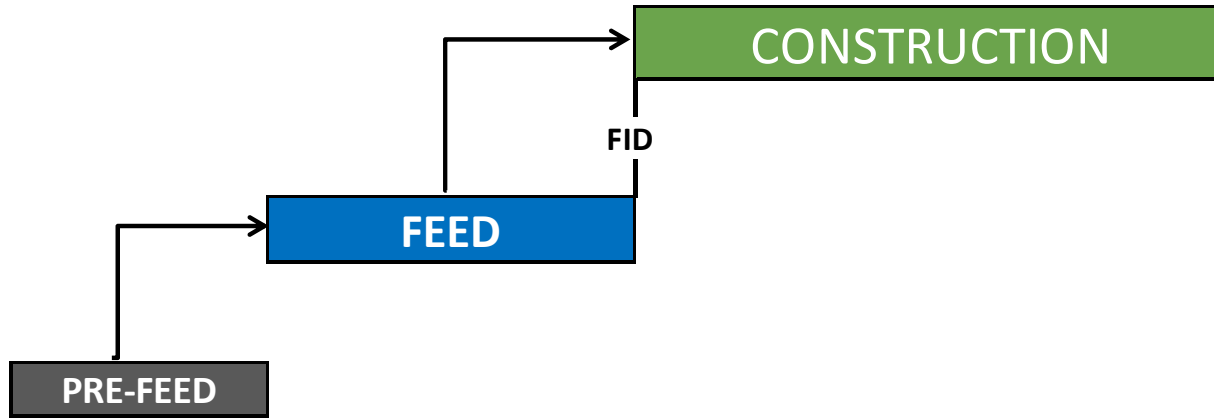
Peak Staffing:	~200	400 - 500	500 – 1,500	9,000 – 15,000
Cost (\$):	Tens of Millions	Hundreds of Millions	Billions	Tens of Billions
Est. Engineering / Technical Duration*:		12 - 18 Months	2 - 3 Years	5 - 6 Years

Activities

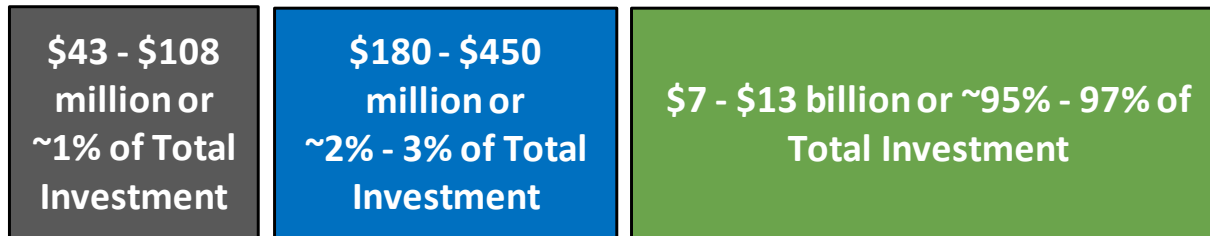
Evaluate: <ul style="list-style-type: none"> Range of technically viable options for major project components Business Structure In-state gas / export LNG demand 	Progress: <ul style="list-style-type: none"> Preliminary engineering to refine concept Business structure Financing plan 	Complete: <ul style="list-style-type: none"> Front-end engineering & design Major contract preparation Business structure Financing arrangements 	Execute: <ul style="list-style-type: none"> Final engineering Financing Procurement Fabricate / Logistics / Construct Prepare for Operations
Solicit Interest of Others		Solicit Interest of Others	
Establish Government Support and Advance Regulatory Issues: <ul style="list-style-type: none"> Competitive oil tax environment; predictable / durable LNG project fiscal terms; AGIA Issues Assure ability to secure regulatory approvals / permits / land use Environmental activities / Technical data collection Stakeholder engagement File DOE Export License 		Advance Gov't / Reg. Issues: <ul style="list-style-type: none"> Key permit / land use approvals Stakeholder engagement Secure DOE Export License 	
	Start individual gas / LNG sales / shipping efforts	Execute individual gas / LNG sales / shipping agreements	Implement business structure & agreements
Screen commercial viability	Assess commercial viability	Confirm commercial viability	Commission / start-up

* NOTE: Duration of various phases may be extended by protracted resolution of fiscal terms, permitting and regulatory delays, legal challenges, changes in commodity market outlook, time to secure long-term LNG contracts, labor shortages, material & equipment availability, weather, etc.

THE HEADS OF AGREEMENT LAY OUT THE AKLNG TIMELINE AND DECISION POINTS



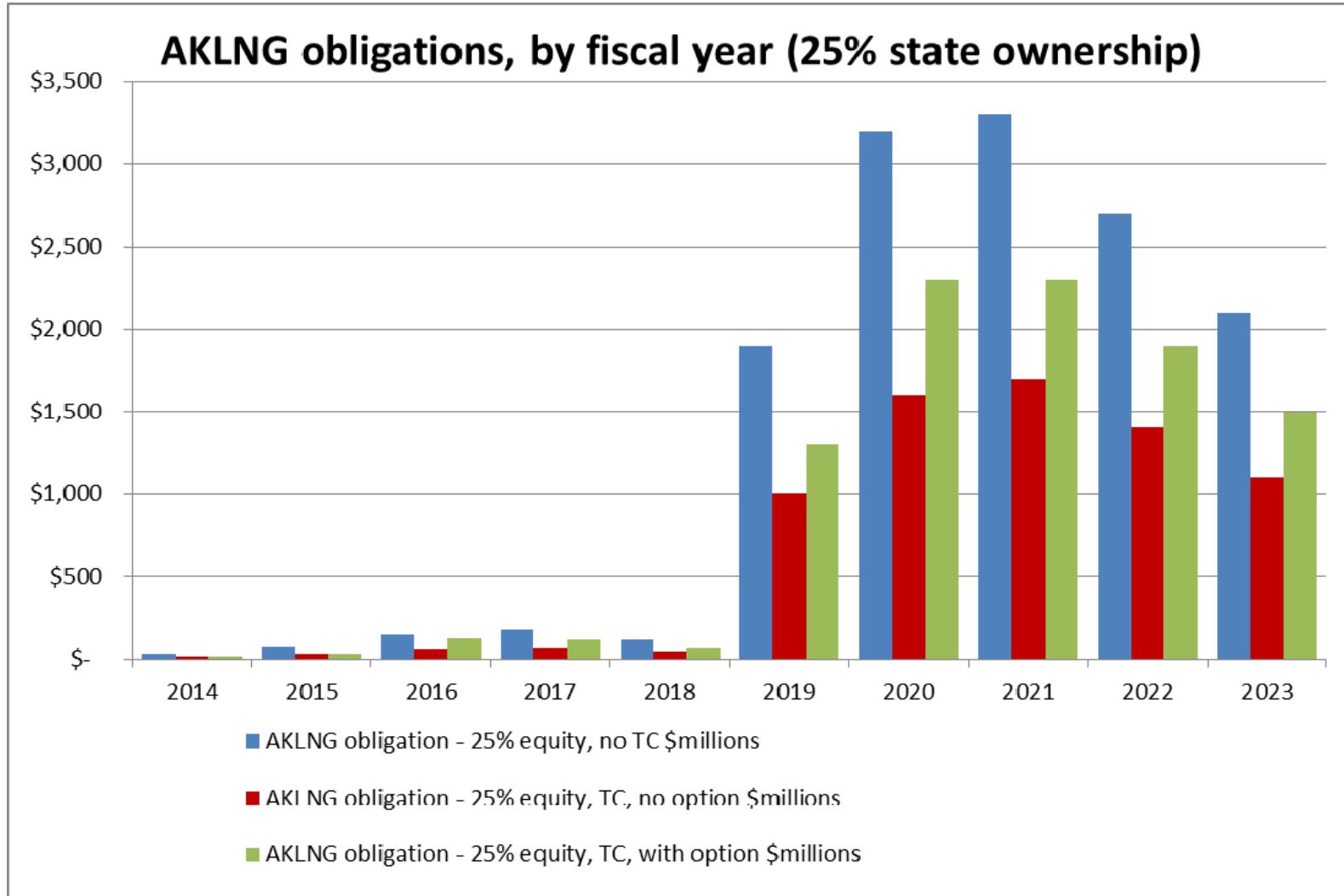
State Investment in Project



HOA lays out principles to advance the project to pre-FEED and enter into commercial agreements

Source: Black and Veatch.

AKLNG OBLIGATIONS (BEFORE FINANCING ACTIVITIES) @ 25% STATE OWNERSHIP IN MILLIONS OF DOLLARS



Source: Department of Revenue; Black and Veatch.

Assumes obligation is due in the corresponding fiscal year; i.e. CY 2019 obligation in FY 2019, etc.

AKLNG FINANCING PLAN – CONTRACT AWARDED

- Interim draft financing plan report due first day of 2015 Legislative Session
- Financial consultants hired: Lazard, Financial Advisory and Asset Management firm
- Independent Registered Municipal Advisor (IRMA) – FirstSouthwest

AKLNG – Long term potential: Assumptions

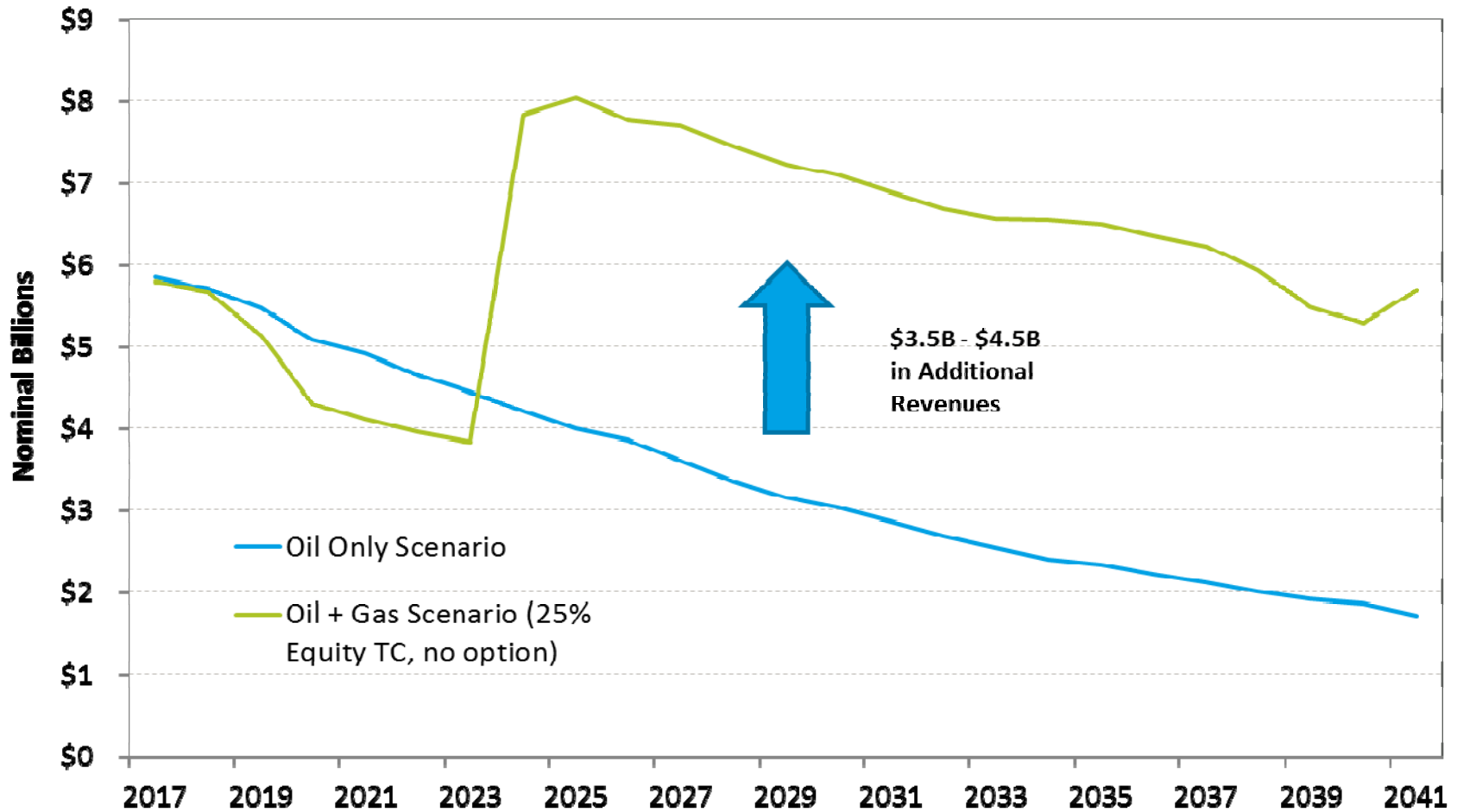
- Incremental analysis: Gas revenues forecasted independent of oil
- Long-term forecast assumes the following trends for oil and gas related revenues
 - Oil revenues – GFUR mid/high case through 2024, then trend from 2020-2024 projected forward (decline of ~2%/yr)
 - Gas revenues – AKLNG Project revenues assumed to begin in 2024
- Assumptions underlying gas revenues
 - AKLNG project comes online in 2024
 - Export volume of 2.5 Bcf/d and in-state volume of 0.25 Bcf/d
 - Oil price = \$90/bbl in 2013\$ growing at 2.5% a year; LNG Price = 13.5%*Oil Price + \$1
 - GFUR is assumed to include 75% of royalties, 25% of property tax, 100% of state corporate income tax, production tax and return on equity on AKLNG project investment
- Three different scenarios for State equity participation:
 - Go it alone – State holds 25% equity stake in GTP, Pipeline and LNG Plant
 - TC with no Option – TC holds 25% equity stake in GTP and Pipeline, State holds 25% equity stake in LNG Plant
 - TC with Option – initially, TC holds 25% equity stake in GTP and Pipeline, State holds 25% equity stake in LNG Plant. State exercises Option for 40% of TC's stake at beginning of FEED

A note on uncertainty....

- Goal: To give a **reasonable** view of how the AKLNG project could impact Alaska's financial position both over the:
 - short term (next few years),
 - mid term (next decade), and
 - long term (to 2040 and beyond)
- Analysis presented represent a set of scenarios taken from a range of possible outcomes
- Different assumptions may produce significantly different results
- Department of Revenue and consultants are in the process of refining this analysis. As a result, future analysis could have different results

AKLNG POTENTIALLY ADDS OVER \$4 BILLION PER YEAR IN GROSS REVENUES

State of Alaska Potential Revenue Scenarios - with and without AKLNG



Source: Black and Veatch

Note: Oil only case not reflective of Department of Revenue Official Production or Revenue Forecasts and is intended only for the purpose of measuring potential Alaska LNG revenues on an incremental basis.

AKLNG – LONG TERM POTENTIAL GROSS REVENUE IN MILLIONS OF DOLLARS

Equity Alternative 25% - State Go it Alone		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Royalty	[mm\$/yr]	\$1,230	\$1,380	\$1,360	\$1,380	\$1,410	\$1,440	\$1,460	\$1,490	\$1,510	\$1,540	\$1,570	\$1,590	\$1,620	\$1,650	\$1,690	\$1,720	\$1,760	\$1,800
Production Tax	[mm\$/yr]	\$750	\$990	\$1,000	\$1,200	\$1,180	\$1,160	\$1,130	\$1,100	\$1,070	\$1,120	\$1,240	\$1,280	\$1,250	\$1,230	\$1,000	\$630	\$490	\$970
SCIT	[mm\$/yr]	\$160	\$180	\$180	\$190	\$200	\$210	\$220	\$230	\$230	\$240	\$250	\$260	\$270	\$270	\$280	\$290	\$310	\$390
Property Tax	[mm\$/yr]	\$1,000	\$1,010	\$910	\$900	\$880	\$860	\$840	\$810	\$790	\$760	\$730	\$690	\$670	\$640	\$640	\$630	\$590	\$550
Project Ownership	[mm\$/yr]	\$880	\$860	\$850	\$840	\$830	\$820	\$800	\$790	\$780	\$760	\$750	\$740	\$720	\$710	\$690	\$680	\$660	\$650
Total SOA Net Cash Flow	[mm\$/yr]	\$4,020	\$4,420	\$4,300	\$4,510	\$4,500	\$4,490	\$4,450	\$4,420	\$4,380	\$4,420	\$4,540	\$4,560	\$4,530	\$4,500	\$4,300	\$3,950	\$3,810	\$4,360

Equity Alternative 25% - TC No Option		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Royalty	[mm\$/yr]	\$1,170	\$1,320	\$1,300	\$1,330	\$1,350	\$1,380	\$1,400	\$1,430	\$1,450	\$1,480	\$1,510	\$1,540	\$1,560	\$1,600	\$1,630	\$1,660	\$1,700	\$1,740
Production Tax	[mm\$/yr]	\$700	\$940	\$950	\$1,140	\$1,120	\$1,100	\$1,070	\$1,040	\$1,020	\$1,070	\$1,190	\$1,220	\$1,200	\$1,180	\$940	\$570	\$440	\$920
SCIT	[mm\$/yr]	\$160	\$180	\$180	\$190	\$200	\$210	\$220	\$230	\$230	\$240	\$250	\$260	\$270	\$270	\$280	\$290	\$310	\$390
Property Tax	[mm\$/yr]	\$1,130	\$1,140	\$1,030	\$1,010	\$990	\$970	\$950	\$920	\$890	\$860	\$820	\$790	\$750	\$730	\$720	\$710	\$660	\$610
Project Ownership	[mm\$/yr]	\$460	\$450	\$440	\$440	\$430	\$420	\$410	\$410	\$400	\$390	\$380	\$370	\$360	\$350	\$340	\$330	\$320	\$310
Total SOA Net Cash Flow	[mm\$/yr]	\$3,620	\$4,030	\$3,900	\$4,110	\$4,090	\$4,080	\$4,050	\$4,030	\$3,990	\$4,040	\$4,150	\$4,180	\$4,140	\$4,130	\$3,910	\$3,560	\$3,430	\$3,970

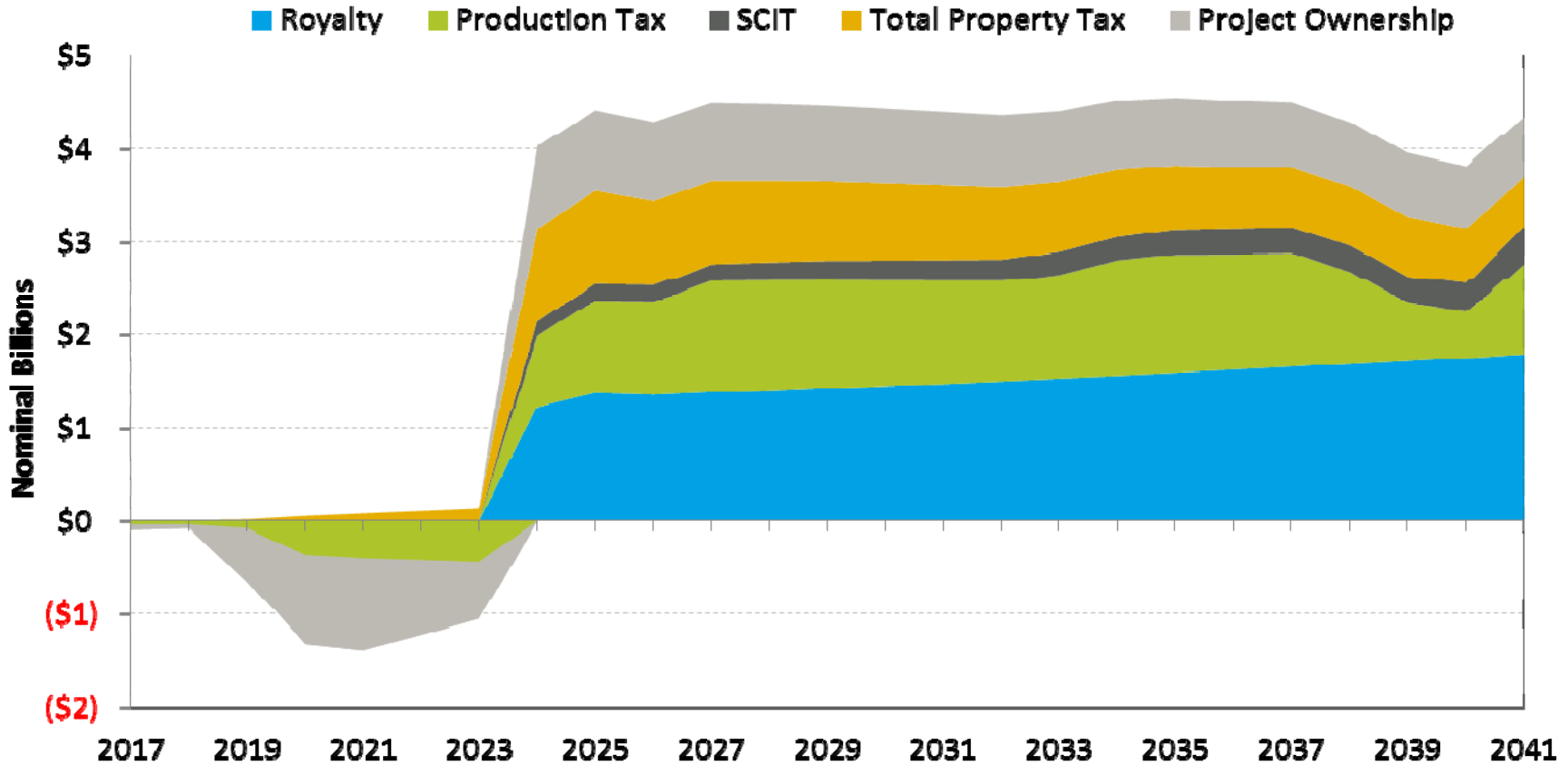
Equity Alternative 25% - TC with Option		2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Royalty	[mm\$/yr]	\$1,170	\$1,320	\$1,300	\$1,330	\$1,350	\$1,380	\$1,400	\$1,430	\$1,450	\$1,480	\$1,510	\$1,540	\$1,560	\$1,600	\$1,630	\$1,660	\$1,700	\$1,740
Production Tax	[mm\$/yr]	\$700	\$940	\$950	\$1,140	\$1,120	\$1,100	\$1,070	\$1,040	\$1,020	\$1,070	\$1,190	\$1,220	\$1,200	\$1,180	\$940	\$570	\$440	\$920
SCIT	[mm\$/yr]	\$160	\$180	\$180	\$190	\$200	\$210	\$220	\$230	\$230	\$240	\$250	\$260	\$270	\$270	\$280	\$290	\$310	\$390
Property Tax	[mm\$/yr]	\$1,130	\$1,140	\$1,030	\$1,010	\$990	\$970	\$950	\$920	\$890	\$860	\$820	\$790	\$750	\$730	\$720	\$710	\$660	\$610
Project Ownership	[mm\$/yr]	\$610	\$600	\$600	\$590	\$580	\$570	\$560	\$550	\$540	\$530	\$530	\$520	\$510	\$500	\$490	\$480	\$550	\$540
Total SOA Net Cash Flow	[mm\$/yr]	\$3,770	\$4,180	\$4,060	\$4,260	\$4,240	\$4,230	\$4,200	\$4,170	\$4,130	\$4,180	\$4,300	\$4,330	\$4,290	\$4,280	\$4,060	\$3,710	\$3,660	\$4,200

Source: Department of Revenue; Black and Veatch. Based on assumed 70/30 financing split for debt/equity.

Assumes obligation is due in the corresponding fiscal year; i.e. CY 2019 obligation in FY 2019, etc.

AKLNG – LONG TERM POTENTIAL REVENUE BY REVENUE TYPE

**State of Alaska Projected AKLNG Revenue
25% Equity State Go it Alone**

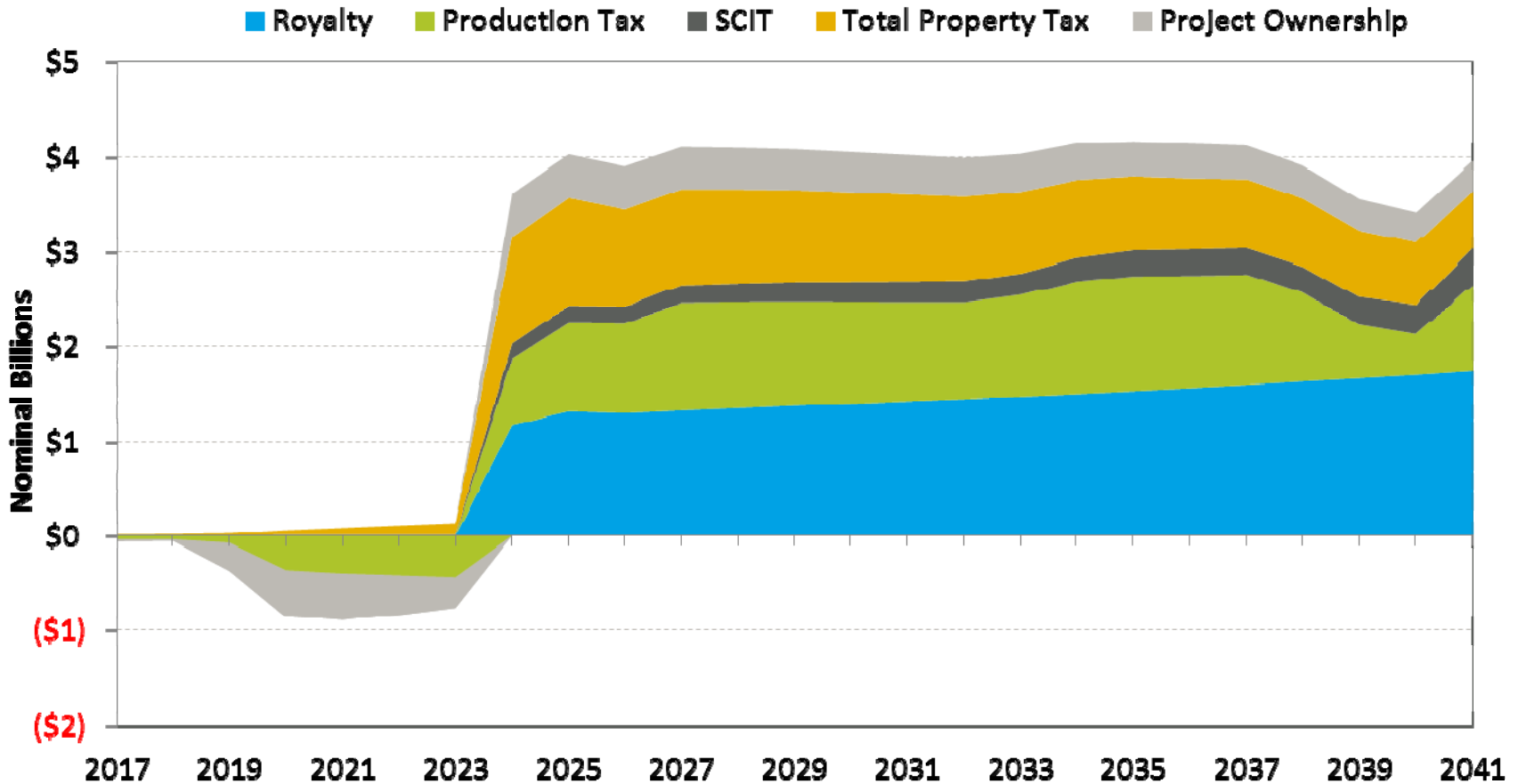


Source: Department of Revenue; Black and Veatch. Based on assumed 70/30 financing split for debt/equity.

Assumes obligation is due in the corresponding fiscal year; i.e. CY 2019 obligation in FY 2019, etc.

AKLNG – LONG TERM POTENTIAL TOTAL REVENUE BY REVENUE TYPE

State of Alaska Projected AKLNG Revenue 25% Equity with TransCanada, no option

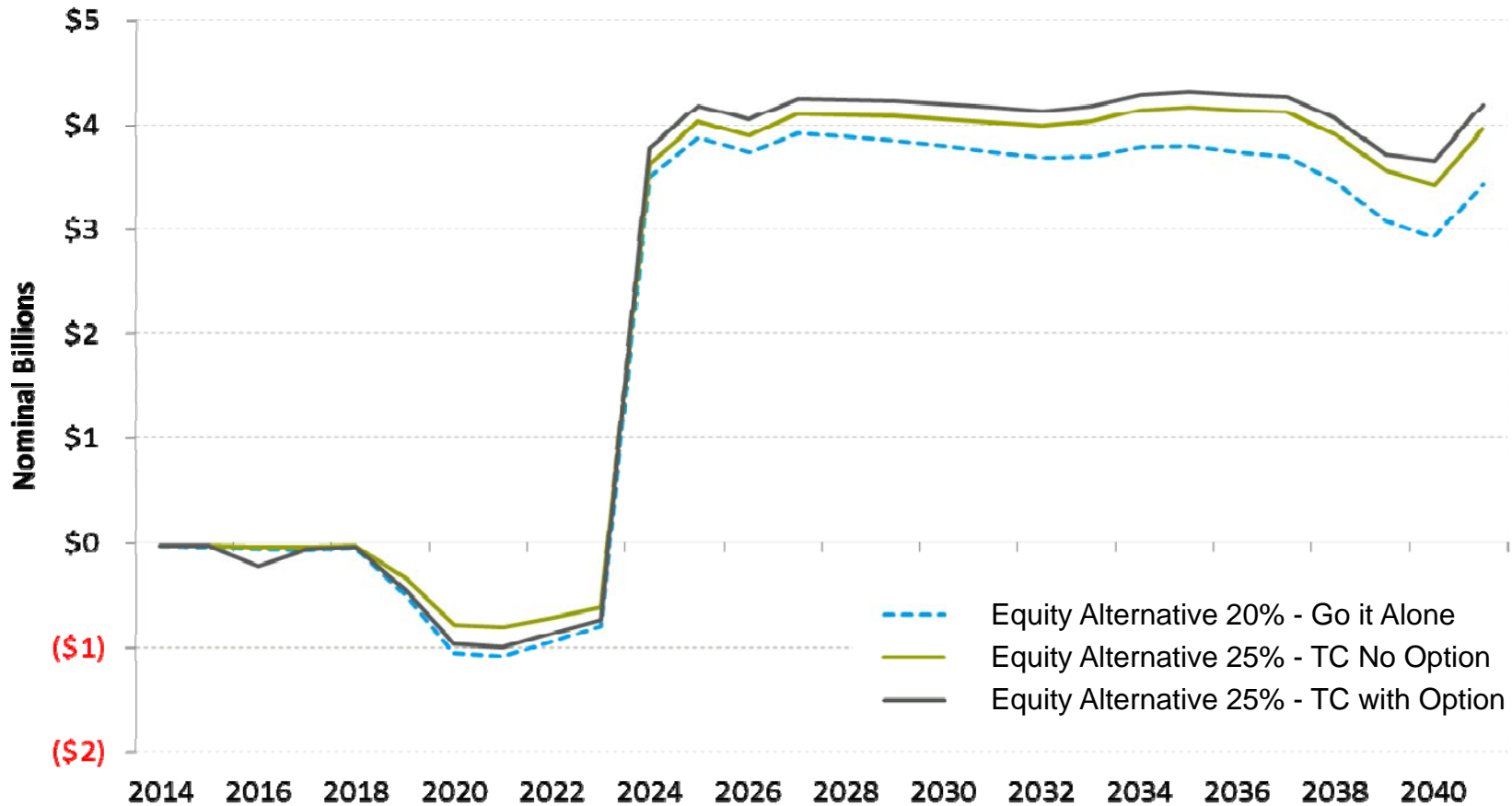


Source: Department of Revenue; Black and Veatch. Based on assumed 70/30 financing split for debt/equity.

Assumes obligation is due in the corresponding fiscal year; i.e. CY 2019 obligation in FY 2019, etc.

STATE EQUITY PARTICIPATION: WITH AND WITHOUT TRANSCANADA

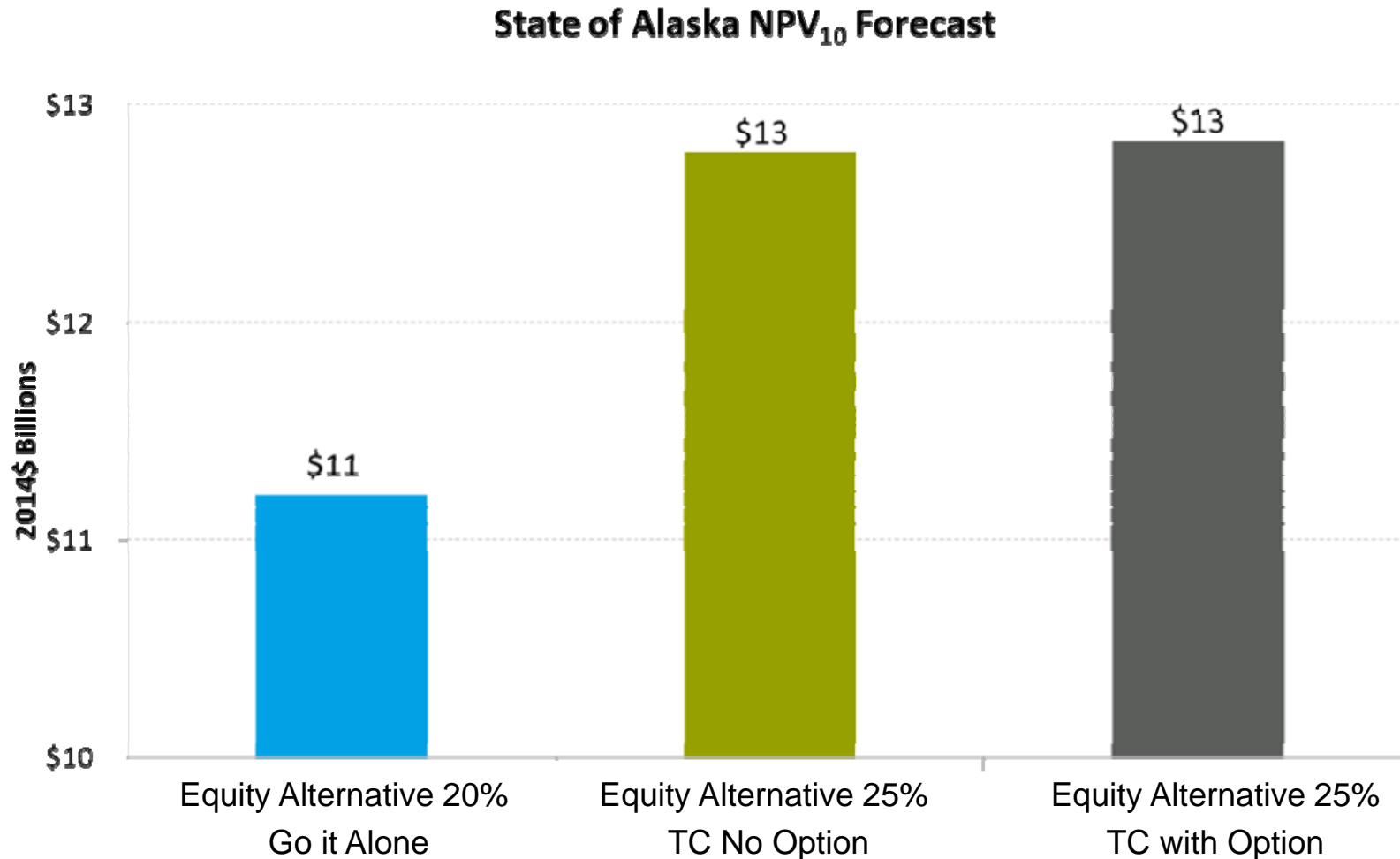
State of Alaska Gasline Impact Cash Calls & Revenues Forecast



Source: Department of Revenue; Black and Veatch. Based on assumed 70/30 financing split for debt/equity.

Assumes obligation is due in the corresponding fiscal year; i.e. CY 2019 obligation in FY 2019, etc.

STATE EQUITY PARTICIPATION: NPV IMPROVES WITH TRANSCANADA PARTICIPATION



Source: Department of Revenue; Black and Veatch. Based on assumed 70/30 financing split for debt/equity.

Assumes obligation is due in the corresponding fiscal year; i.e. CY 2019 obligation in FY 2019, etc.

IMPACT PAYMENTS & PROPERTY TAX

- Heads of Agreement created opportunity, in consultation with local communities, to develop a series of impact payments and throughput based payment in lieu of tax (PILT) for the AKLNG project.
- Governor Parnell issued A.O. 269 establishing the Municipal Advisory Gas Project Review Board.
- **Members include:** Mayors Charlotte Brower, Luke Hopkins, Clay Walker, Larry DeVilbiss, Dan Sullivan, and Mike Navarre to represent each of the boroughs directly impacted by the proposed natural gas pipeline. In addition, Mayor Reggie Joule, Robert Venables, and Robert Bartholomew were named to serve in public seats. Commissioner Angela Rodell was named the Board Chair, with Commissioners Joseph Balash and Susan Bell as additional members.
- **First Recommendations due December 15, 2014**

“While North Slope gas commercialization is challenging, working together, we can maintain the momentum toward our shared vision for Alaska.”



Source: Letter dated October 1, 2012 to Governor Parnell (Exhibit I-B of HOA)

THANK YOU

Please find my contact information below:

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Department of Revenue
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Resources

<http://dor.alaska.gov/AKGasDocs.aspx>

www.dnr.alaska.gov/AKgas.htm

