

**Payment in lieu of taxes
for Alaska LNG project
will be a statewide issue**

The property tax problem

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- Tax assessment of TAPS disputed for decades
- Everyone wants to avoid repeat with LNG project
- How much is a mile of high-pressure pipeline worth?
- What are the comparables for LNG storage tanks?
- What is the life of North Slope gas reserves?
- Alaska LNG cannot afford full 20 mill tax levy in competitive market — could be 10% of LNG price

There is a two-part solution

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- Impact aid fund during construction
- Negotiated payment in lieu of tax for operations
- Certainty of expense and certainty of revenue
- No lengthy litigation over assessed value
- Draft negotiated with producer-led team 2015:
 - Construction PILT fund: \$800 million over 5 years
 - Operations PILT: \$14 billion 25 yrs. (volume-based)

Impact aid during construction

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- Intended to cover direct cost of services, repairs, municipal expenses related to construction impacts
- Not a profit center for municipalities
- The \$800 million represents a negotiated number
- Project writes one check to the state
- Probably administered as a state grant program
- Municipal advisory group need to talk about how grant program would work — details undecided

PILT during operations

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- Construction cost estimate; no change for overruns
- Set on a 30-year straight depreciation
- Add in a 2.5% annual inflation adjustment
- With a multiplier as output grows or declines
- State and municipalities need to decide allocation
- Producers wanted no part of that political battle
- Portion of it could (should) be shared statewide

Sharing is the hard part

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- Does state pay its share into the impact fund?
- Does state draw on fund, such as DOT projects?
- AGDC says there will be a PILT, no details yet
- Municipalities in the path of the project generally are OK with \$800 million and \$14 billion, but ...
- How to share the funds with municipalities:
Population, direct and indirect impacts, statewide, project mileage? The legislature will have to decide

Where is the project today

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- Decades of multiple hopes, false starts for Alaska pipeline to Mid-America, or LNG to California/Asia
- Markets and economics have worked against us
- Alaska gas has never been the cheapest gas
- State and producers in past 15 years have spent more than \$1.5 billion on multiple gas line efforts
- Personal note: Before a project, state needs to get fiscal act together and solve oil politics divisiveness

State takes control of LNG project

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- Producers decided it wasn't the time to spend more
- State took over, seeks investors, partners, customers
- State opened marketing offices in Houston, Tokyo
- AGDC looks for gas sales contracts from producers; long-term contracts for the pipeline and LNG plant; and buyers to sign long-term deals to take the gas
- State does not want 100% ownership or 100% risk; looking for potential investors, lenders to take slices

FERC process and EIS

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- State filed in April; FERC still reviewing application
- FERC has sent 95 pages of data requests to AGDC
- State asked for draft EIS next summer; final EIS by December 2018 to allow construction start 2019
- Probably unrealistic to expect project EIS that soon
- Public hearings start with draft impact statement
- Expect challenges by pipeline, fossil fuel opponents

In-state offtakes

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- The long-awaited gas for Alaskans
- FERC needs to know pipeline offtake points; construction can come later, but EIS must include sites
- State statute instructs AGDC to develop in-state offtakes at ‘commercially reasonable rates’
- AGDC still working to identify 5 in-state offtakes
- Application identifies 3: Fairbanks, MatSu, Kenai
- Alaskans’ expectations of ‘cheap’ gas not realistic

Still under negotiation

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- Producer partners own 600-plus acres at LNG site
- Producers hold coveted federal export authority to non-free-trade nations — pretty much all of Asia
- State corporation prefers an option on assets — to conserve its limited cash as long as possible
- Regardless of equity stake or who buys the LNG, producers still liable for production tax and royalty — and still want to negotiate fiscal terms with state

A competitive world

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- Australia will have more than tripled its LNG production capacity between 2012 and 2018
- More supply under construction at Russia's Yamal, and 6 sites in Texas, Louisiana, Georgia, Maryland
- Potential for even more Gulf Coast export capacity
- Mozambique is getting one, maybe two LNG plants
- Expansion possible for existing export projects in Papua New Guinea, Russia's Far East Sakhalin plant

A buyer's market, this decade

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- India renegotiated long-term deal with Qatar
- India gas distributor trying to renegotiate lower price on 20-year contract with Louisiana LNG plant
- More buyers are expected to push for better terms
- Toshiba signed 20-year commitment to take gas from Texas LNG project, but still looking for buyers
- Spot-market LNG below long-term contract prices
- **The good news: Cheap gas enticing new buyers**

Long-term deals losing ground

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- Jera Co., a joint-venture of Tokyo Electric and Chubu Electric, is planning to cut the amount of LNG it purchases under long-term contracts by almost half from current volume by 2030
- LNG buyers are playing sellers against each other
- About 28% of LNG in 2015 was sold on a spot or short-term basis, up low single digits pre-2006
- Projections of 40% spot/short-term deals by 2020

Alaska has its advantages

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- Lower-cost gas production at Prudhoe Bay
- Proven gas reserves; no supply risk
- Liquefaction process more efficient in cold climates
- Alaska closer to Asia than U.S. Gulf Coast
- Alaska politics goofy, but more stable than Russia
- But project cost and lack of alignment with and between producers remains a problem in Alaska

State fiscal plan must come first

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- Hard to imagine anyone loaning the state billions of dollars when we don't know how we will pay for schools in a couple of years
- Alaska covering two-thirds of budget from savings
- LNG alone cannot solve state's fiscal problem; not that much profit in gas, and it's years away
- Think of the project as a needed booster shot in the years ahead; it will not cure today's illness

For more information

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Alaska LNG project reports

<http://www.kpb.us/mayor/lng-project/lng-project-updates>