



Some thoughts on AKLNG

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Impacts from the AK LNG Project

- **Railbelt energy**
 - Potentially lower prices for urban Alaska firms and households
 - Fate of urban and rural Alaska energy prices linked via Power Cost Equalization
- **Private Sector Economic Development**
 - Construction on the frontend, operations and maintenance on the backend
 - Lower cost energy might induce new industrial demand (fertilizer, mining, datacenters, etc)
- **State & Local Revenue**
- **State and Federal Strategic Goals + other non-market considerations**



Impacts from the AK LNG Project

- **Railbelt energy – Main focus of my remarks**
 - Potentially lower prices for urban Alaska firms and households
 - Fate of urban and rural Alaska energy prices linked via Power Cost Equalization
- **Private Sector Economic Development**
 - Construction on the frontend, operations and maintenance on the backend
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- **State and Federal Strategic Goals + other non-market considerations**



Imagine 4 Futures

Success: The full project is completed on reasonable schedule and budget

Partial Success: Phase 1 is complete on reasonable schedule and budget, but Phase 2 is not developed

“No project”: We have confidence that project will not be developed

“Limbo:” Delays push Phase 1 well into the future, expensive stop-gap measures are required



“No Project”

Status quo state of the world.

As utility contracts with Cook Inlet producers expire over next seven years, new gas supply will require higher prices to secure.

Supply will be some combination of imported LNG and Cook Inlet gas. LNG import price will likely set price for uncontracted Cook Inlet gas.

LNG Prices:

Over last 10 years, Pacific LNG prices have been in **\$5-\$15/MCF** range. (exceptions: Covid (~\$4/MCF), Russia/Ukraine ->\$30/MCF; Hormuz \$19/MCF)

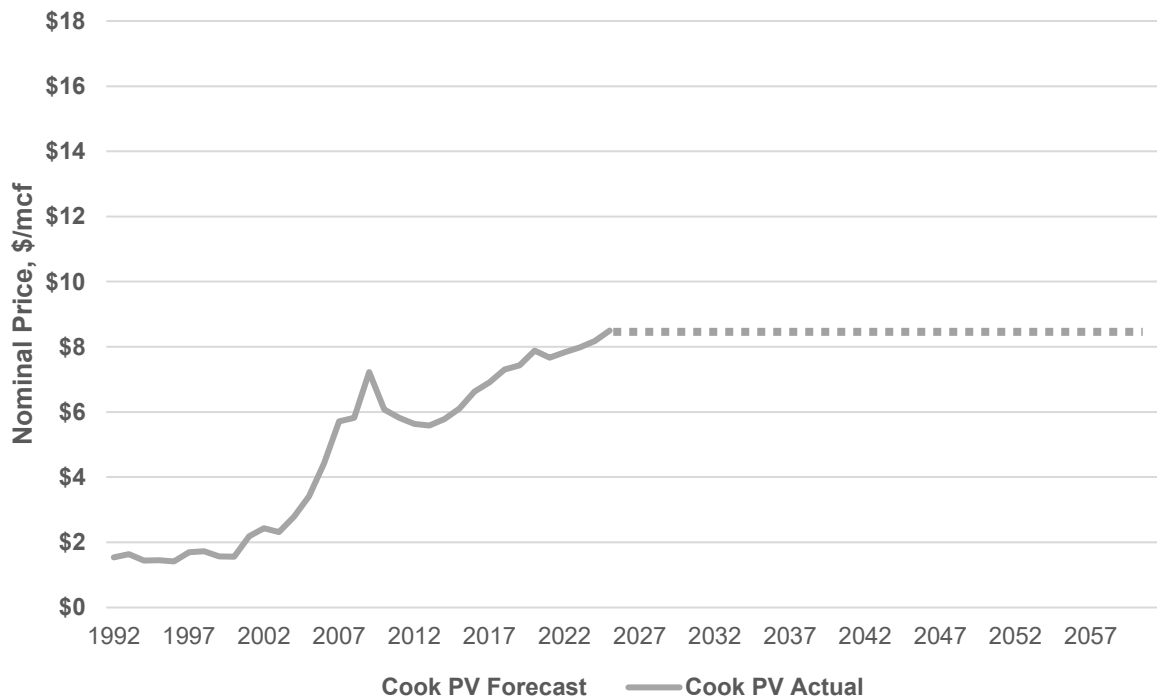
+ Enstar estimates: \$1/MCF shipping + \$3-\$5/MCF infrastructure costs.

Total: \$9-\$21, with potential for upside shocks depending on contract terms

Alternative energy projects might offset some import demand, but won't change the marginal price



“No Project”



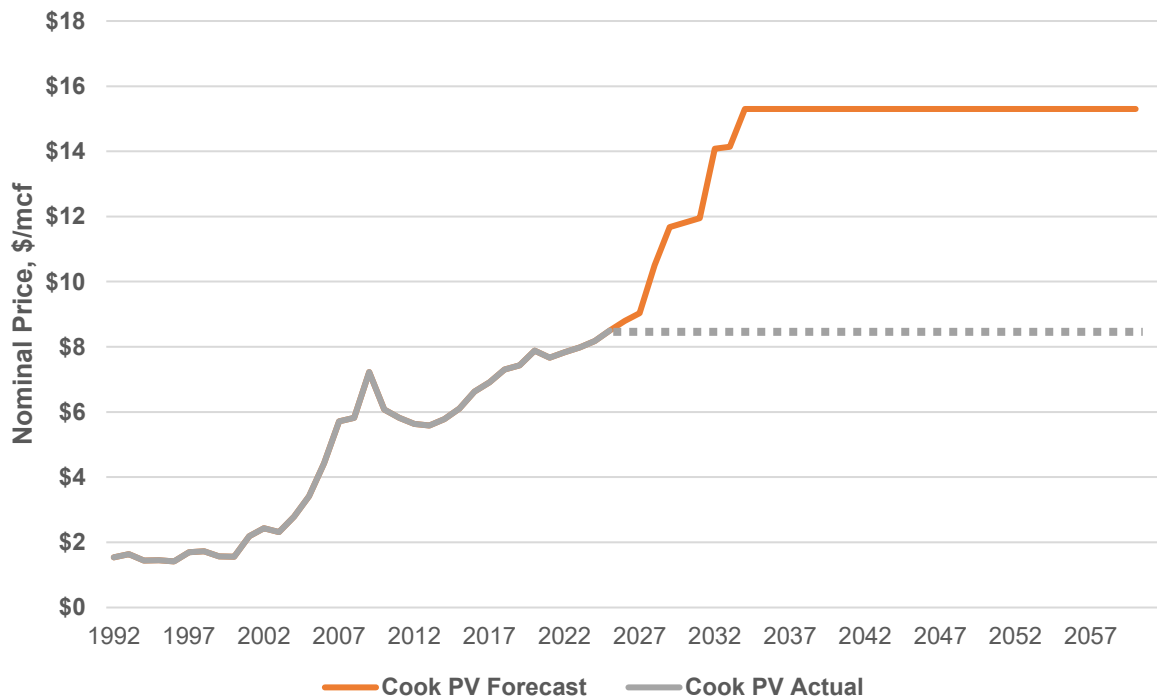
Where we are today is not where we will be in the future.

Source: AKDoR Cook Inlet Prevailing values



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“No Project”



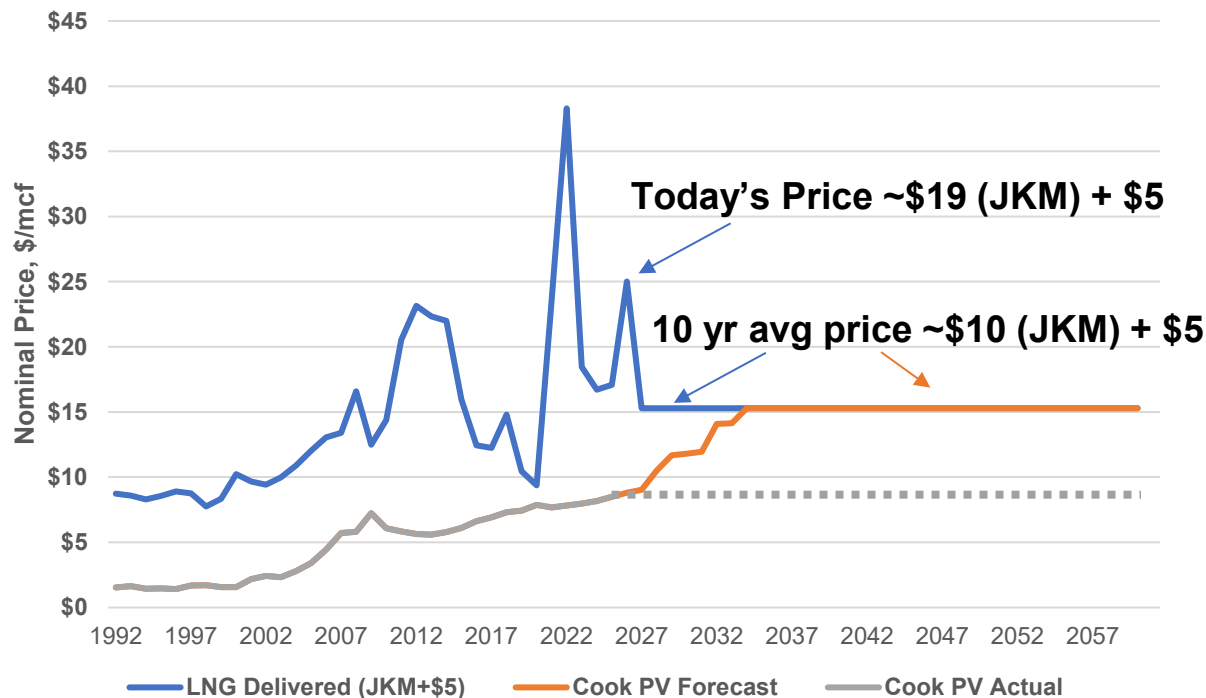
Where we are today is not where we will be in the future.

Source: Forecast is author's calculations based on contract expiration information from BRG Utility Working Group Report.



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“No Project”

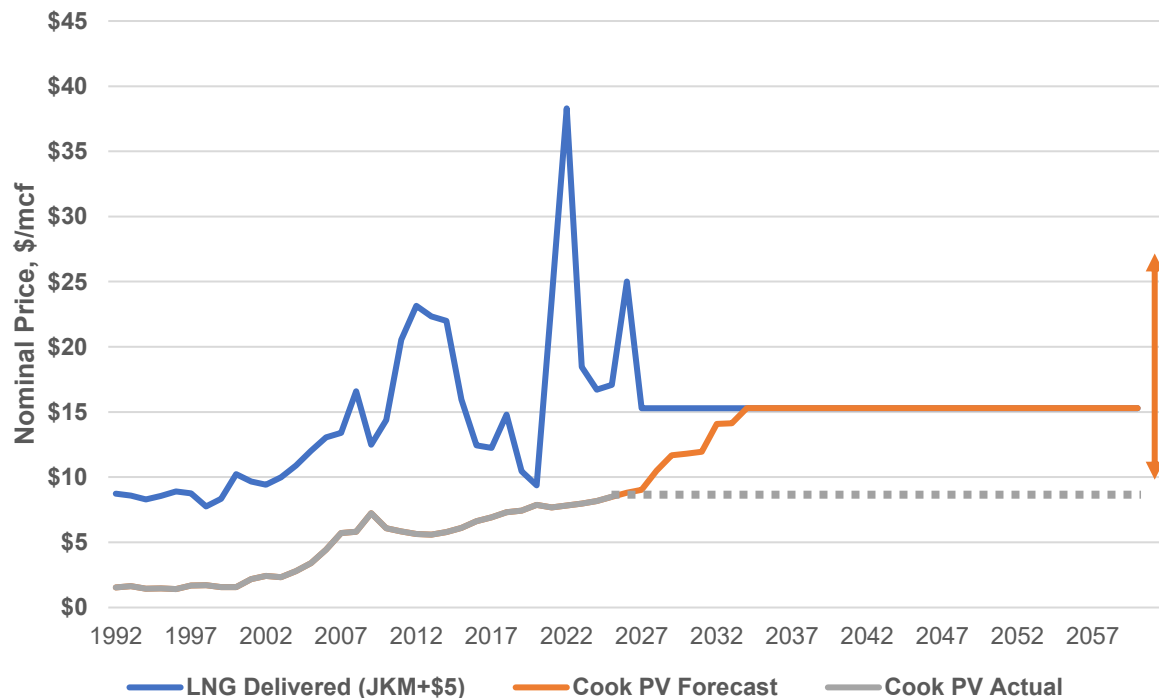


Source: LNG Price is IMF Primary Commodity Price Report for Asia LNG + 5 dollar shipping and infrastructure cost as estimated by Enstar.



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“No Project”



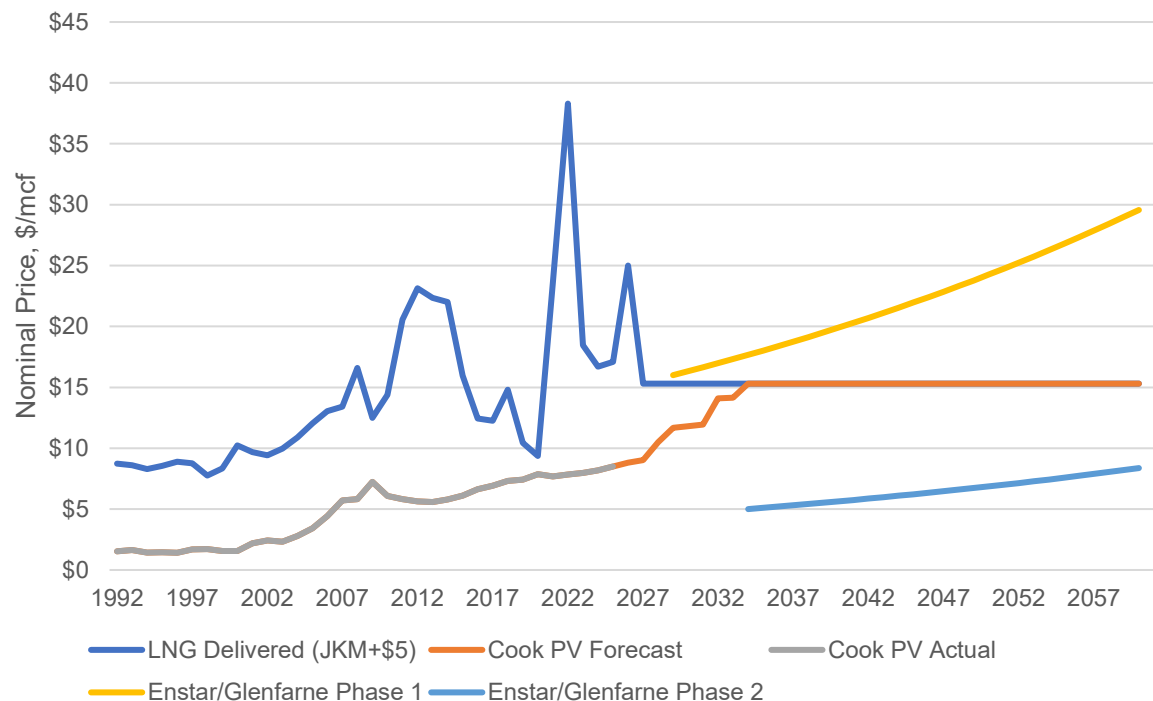
**Uncertainty over contract terms.
JKM/Brent-linked prices add
volatility.**



“Successful Project”

4 Stages:	Today	LNG Imports	NS Gas Phase 1	AK LNG
Energy Supply	Cook Gas	Cook Gas+LNG	NS Gas (+ Cook Gas)	NS Gas (+ Cook Gas)
Gas price	~\$10	\$9++ - \$21++	\$16+escalation	\$5+escalation
State & Local Revenues	Status Quo	Declining Cook petroleum revenues	State petroleum taxes on upstream gas – lease expenditures (net negative revenue impacts in early years)	\$700M-1,400M per year for state + local, depending on tax structure
Broader Econ/Social Impacts	Status Quo	Higher energy prices => drag + “leakage” from importing energy partly offset by LNG import impacts	Higher energy prices & Cook losses => drag; offset by construction impacts	Lower prices + project econ impacts => boon

“Successful Project”



Source: Forecast is author's calculations based on Enstar and Glenfarne presentations to House and Senate Finance week of 6/1/26. Price assumed \$16 in 2029 and \$5 in 2034, with 2% escalation assumed thereafter.



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“Partially Successful Project”

4 Stages:	Today	LNG Imports	NS Gas Phase 1	AK LNG
Energy Supply	Cook Gas	Cook Gas+LNG	NS Gas (+ Cook Gas)	NS Gas (+ Cook Gas)
Gas price	~\$10	\$9++ - \$21++	\$16+escalation	\$5+escalation
State Revenues	Status Quo	Declining Cook petroleum revenues	State petroleum taxes on upstream gas	Significant petroleum revenue on upstream gas
Broader Econ/Social Impacts	Status Quo	Higher energy prices => drag + “leakage” from importing energy partly offset by LNG import impacts	Higher energy prices & Cook losses => drag; offset by construction impacts	Lower prices + project econ impacts => boon



“Limbo”

Limping by with short term (high cost) solutions (eg buying gas on spot market/short term contracts, undersized import infrastructure, large storage requirements)

Phase 1 “right around the corner” for indefinite amount of time

Defer needed investments in alternative/lower cost solutions on fears of stranded assets



Gambling on Gas

Will LNG prices be high or low in the future?

If future LNG prices are high – expensive to import & AKLNG economics are strong

If future LNG prices are low – cheap to import & AKLNG economics weak



What can 'we' control? Utility Contracts

- Certainty (in price and deliverability) is costly. What are we willing to pay to have someone else hold risk?
- In “Partial Success” future, downside customer risk limited by *known* Enstar contract terms. However, if LNG prices are low in the future, does contract allow utilities to import instead (call option)?



What can we control? Tax Rates & Structures

- **Tax levels: how much revenue should we take?**
 - Theoretic optimum: maximize net present value of project cost/benefit
 - Right level?
 - Tax level is import factor for project economics. High rates lead to weaker project economics until it is no longer viable
 - Too low (negative/subsidy) = interactions with oil revenue (both geologic and tax accounting) might result in net loss
- **Tax structure: what form is revenue collected?**



What can we control? Tax Rates & Structures

- Tax levels: how much revenue should we take?
- Tax structure: what form is revenue collected?
 - Is tax revenue (relatively) front or back-loaded? Discounting
 - Present value, state generally “more patient” than private sector
 - Money today is less risky than money in the future
 - Is the tax base volatile?
 - Commodity prices fluctuate considerably, taxes reflecting prices in the base will fluctuate more
 - In increasing order: Fixed payments (eg impact fund), Property/land values, production, revenues, profits
 - Does tax distort/incentivize behavior?
 - Generally, petroleum *profits* taxes (like Alaska’s net profits severance tax) are not very distortionary (drilling/investment) as they aim to just “skim the cream”





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