

RESERVES TAX SHOULD BE JUDGED ON **EFFECTIVENESS**

Does the gas reserves tax (or threat thereof) **solve project challenges?**

If not, success depends on **two** core issues: how viable is AK LNG, and how will partners react?

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AK LNG is uneconomic Not going to happen

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AK LNG is uneconomic	Not going to happen	Not going to happen
AK LNG is economic	Project will happen	Project might still happen if threat deployed well and does not antagonize partners and/or raise perceived risk

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AK LNG is uneconomic	Not going to happen	Not going to happen	Not going to happen
AK LNG is economic	Project will happen	Project might still happen if threat deployed well and does not antagonize partners and/or raise perceived risk	Project might still happen if threat deployed well and does not antagonize partners and/or raise perceived risk
AK LNG is marginal	Project might happen	Project might still happen if threat deployed well and does not antagonize partners and/or raise perceived risk	Unclear if gas reserves threat will push the project towards success or failure

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**SPONSOR
DECISION**



Starting point: **Close call** that hinges on portfolio choices and risk appetite

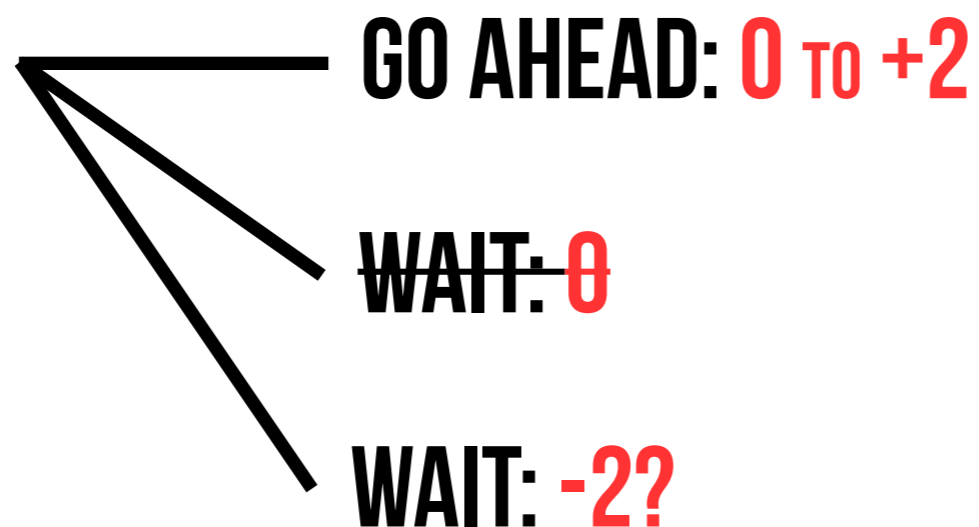
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Add threat of gas reserves tax. In theory, by raising the cost of wait, 'go ahead' is relatively more attractive. **But in practice, the threat adds more variables to the mix**

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But threat of tax also changes **perceived risk** of project as sponsor worries about changes in fiscal policy; go ahead expected value falls

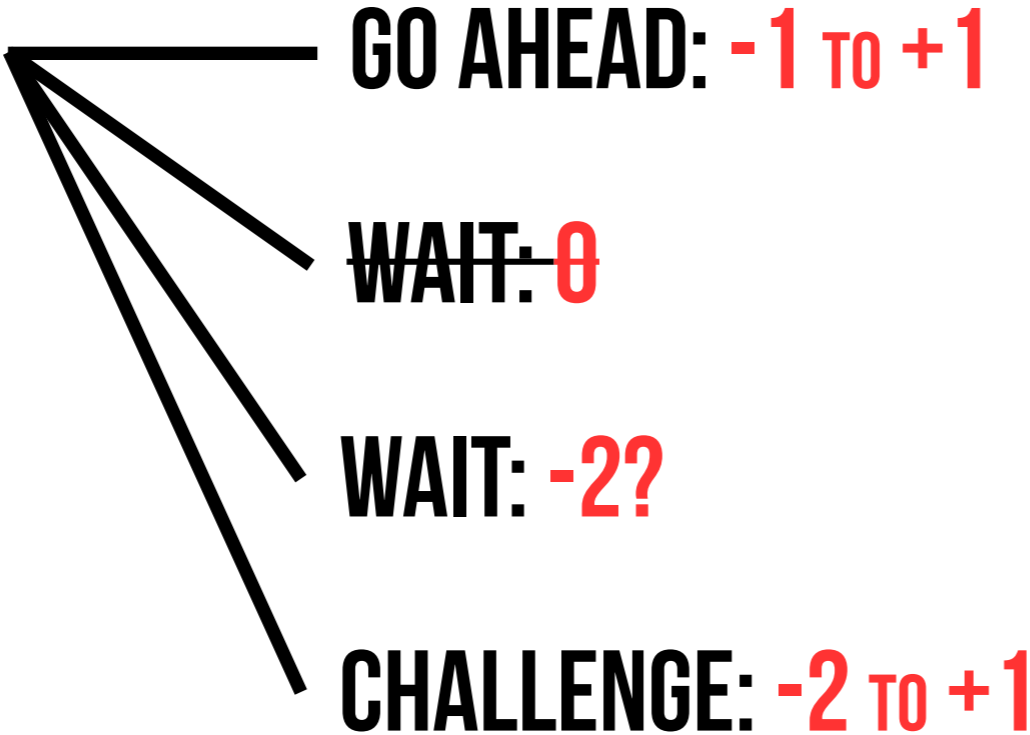
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But the sponsor can also object to the reserves tax and choose to **challenge the tax** in political fora or legally; it can also choose to just pay the penalty (depending on the level)

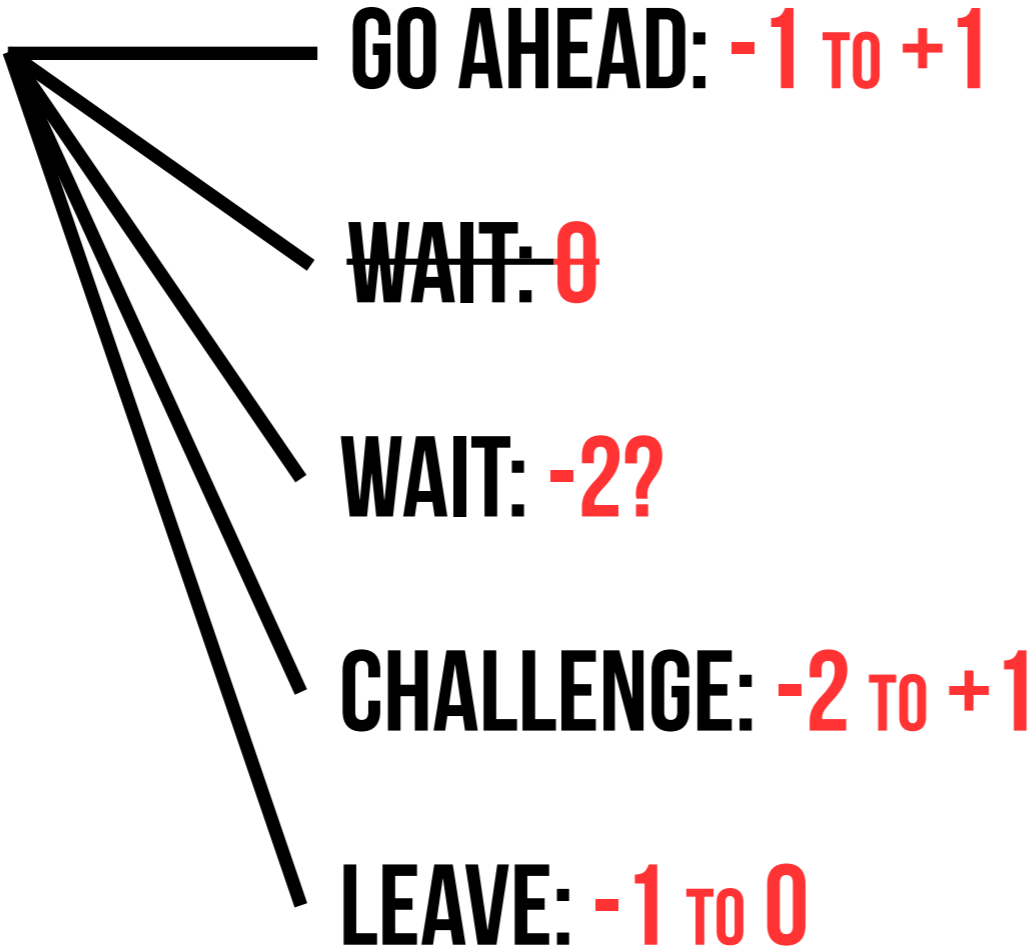
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If the tax is **very high** or if the assessed **risk becomes unacceptable**, the sponsor could also choose to leave the lease (abandon / sell)

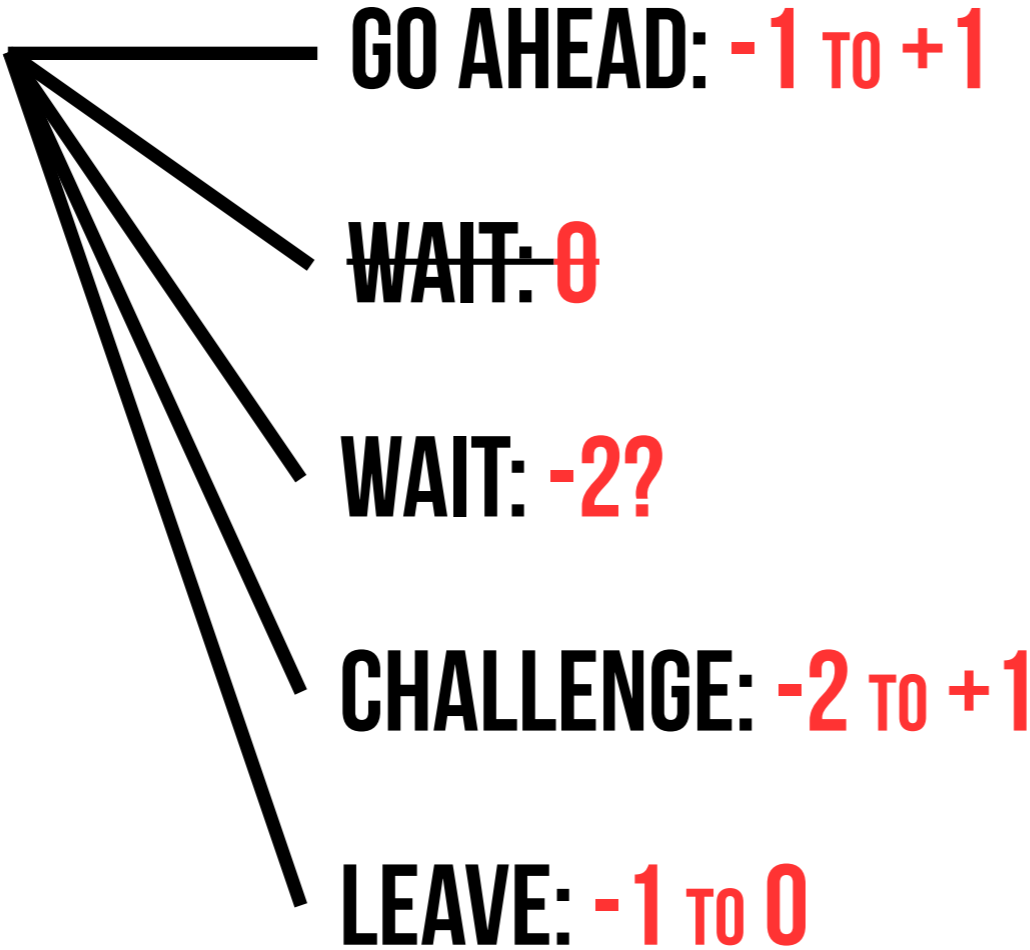
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- . Is it **more likely** that the sponsor will choose 'go ahead' under threat versus challenge or abandon?
- . If the sponsor abandons, **what next?** Who will buy into a heavily taxed lease? How will SOA monetize?
- . How **widely** will the tax apply?

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