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PPT Producing More State Revenues – Helping Independent Producers

The State says one-quarter of our projected oil production will come from projects requiring significant new investment in just two more years.

The trans-Alaska pipeline is two-thirds empty today and North Slope production is falling every day. As the governor said earlier this year: "The need for new energy in Alaska is real".

Delivering new energy was one of two goals of the Petroleum Profits Tax (PPT) passed last year. Increasing state revenues was the other. So far, PPT has delivered on both.

Through the PPT, an additional $1 billion in new revenues has been deposited into the state's general fund over the past 12 months and, according to projections from the Department of Revenue, this should increase to more than $4 billion by FY '11. (Remember – the PPT is just one of four state taxes on Alaska oil. Total petroleum revenues for FY '07 are projected at more than $5 billion.)

Northwest of the Kuparuk River unit, Pioneer Alaska Natural Resources expects to become the North Slope's first independent producer when its Oooguruk development project comes on line early next year. This $500 million project is a huge investment for Pioneer and it partner, Eni Petroleum.

"Pioneer believes the current PPT system achieves the state's desired outcomes – more revenue at higher oil prices and more investment through tax credits. Furthermore, the net tax structure levels the playing field for resources across the state.

Resources that are more expensive to produce and therefore less able to bear a significant tax burden, are taxed at a lower effective rate. We believe the current system is a rational approach given the characteristics of a maturing basin like the North Slope and it should be given a chance to work" stated Ken Sheffield, Pioneer's president in Alaska.

Oooguruk is a small, offshore field that is expected to produce up to 90 million barrels of oil. It is part of the 13.7 billion barrels of oil that we know we can develop on the North Slope. But most of these barrels are very tough and very expensive to produce. Alaska needs upwards of $100 billion in new investments over the next half century to keep the North Slope healthy and the pipeline operating.

The governor has called for a special session of the Legislature on October 18th to consider a new oil tax to replace the PPT. The governor's proposal would increase the total government take to 68 percent, based on a $60/barrel oil price and would make Alaska's tax rate the highest in North America and among the highest in the world.

Maybe I'm being a bit naïve, but I agree with the Anchorage Chamber of Commerce, which recently passed a resolution in support of tax stability. An effective state tax policy would accomplish six goals, the Chamber said, including "creating an environment that encourages exploration and development of all of Alaska's oil and gas resource base".

Amen to that – and to the Fairbanks Daily News-Miner, which wrote: "But impose too high a tax on those who will develop those resources and Alaska may see less in both revenue and resource development. Finding the right balance is difficult, but changing the tax structure year after year so that it maximizes revenue for the state even as global financial conditions change would put oil industry executives in the untenable position of trying to make sound investment decisions while on shifting sand. In such a situation, they are likely to be even more cautious about where to invest dollars."

The current PPT legislation requires a review of this tax within five years. Why is it necessary to address a revision to the PPT now? The Legislature has the opportunity and option of addressing it during a regular session without incurring the enormous costs of time and money required by this call for a special session.

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