# PPT: what it is. And isn't.

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In terms of importance to Alaska's future fiscal stability and opportunities for its citizens, few, if any, proposed legislative measures are as important as two bills now before the second regular session of the 24th Alaska State Legislature.

Senate Bill 305 and House Bill 488 are companion measures sponsored by the Rules Committee in each body and introduced at the request of Governor Frank H. Murkowski. The measure would repeal the obsolete Economic Limit Factor oil and gas tax, commonly known as the ELF, to be replaced with a Petroleum Production Tax or PPT.

The PPT will grow Alaska's flow of revenue from its energy resources. That's a direct and accurate explanation of the true intent of the companion measures. It will grow our bounty from our resources in two ways: (1) it will encourage investment to develop the resources and (2) when that investment yields high profits, it will take an appropriate share.

PPT is about extending the life of what we have today.

PPT is about expanding exploration for what we seek for the future.

Governor Murkowski's proposed PPT will stimulate investment in Alaska's oil and gas sector by providing a tax structure that takes into account profitability while rewarding investment.

By its very name – Petroleum Production Tax – the proposed system taxes net revenues. That is, the difference between total revenue and costs. This profit based system, with reasonable and appropriate credits to spur investment, provides the keys to maximizing long-term revenue.

Absent significant exploration, oil production in Alaska is forecast to decline at a rate of about two percent per year over the next nine years. In recent years the Department of Revenue has revised its production forecast down each year – and the main reasons are twofold:

<u>Lack of investment</u>

Prudhoe Bay has been producing oil for close to three decades and production is falling off somewhat faster than predicted. To partially replace this loss, greater investment is required - both in aging Prudhoe equipment and in new fields whether they are satellites such as Alpine or stand alone opportunities.

<u>Challenges developing heavy oil</u>

Dealing with the heavy oil on the North Slope requires new techniques and technologies. Because of the issues dealing with viscous oil, many of the heavy oil projects have been delayed as the oil companies attempt to figure out the best way to deal with the gooey substance.

To reflect reality, the speed with which the production from heavy oil comes on-line has been delayed. Many of these projects are in the category "Under Evaluation".

Developing crude oil resources is capital intensive and will require significant investment in time and capital. Governor Murkowski's PPT proposal addresses both of these concerns "head on" with a credit for investment – these credits are the very thing needed to stimulate development of oil resources already known.

For oil resources not currently classified as proven resources, reasonable credits also provide powerful incentives for the exploration and development of additional resources.

What PPT is not, is just quick, windfall profits. Alaska's boom and bust cycles made for colorful history. But they don't support promising futures.

PPT is more about the long term return to the Treasury from investment and less about short term gains from a fair take on today's price driven profits.

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