Basic Production Tax

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In my March 5, 2006 report, I recommended a gross PPT feature – a Basic Production Tax - based on a simple windfall profit tax.

The formula recommended was:

The Basic Production Tax Rate would be based on the following formula:

*Basic Tax Rate = (WTI – 50.00) * 0.25%*

The Basic Production Tax would be deductible for PPT purposes. The rate was tested, based on the 20/20 concept at the time.

If the Alaska Legislature would be interested in evaluating this feature further, some more analysis can be done to provide a more up to date calibration and recommendation. However, on a preliminary basis, the following comments can be made:

Price and rate at which the feature clicks in

As indicated during my testimony, today the Basic Production Tax feature remains a good concept. Although at the time it was tested based on the 20/20 concept, I believe it would work with a 22.5% rate as well, or even a 25% rate. The base price for the WTI rate could be anywhere from US $ 50 to US $ 60. I would not go higher than that.

Slope

As I indicated in my testimony to the Legislature, I have done, since the March 5, 2006 report, considerable analysis on a similar feature for Alberta, the so-called Oil Sands Severance Tax. This tax was recommended by the Royalty Review Panel to the Government. Alberta just decided to put this in the form of a price-sensitive royalty instead.

The work for Alberta indicated that a slope from 0.10% to 0.20% is the best range. I would have no problem recommending a slope in this range to the Alaska Legislature. A rate of 0.25% as indicated in my March 5 report is really the upper end one should consider. One should certainly not go higher than that.

Ceiling

The work in Alberta also indicated that one has to be careful with very high rates at very high prices.   This is for two reasons:

- **The marginal royalty rate becomes too high under high prices and high rates (and could even exceed 100%) and this could be counter-productive, and**
- **One has to be somewhat careful with very strong price progressivity, since in the short term there is clearly some relationship between higher prices and higher costs (not necessarily in the long term).**

For these reasons I would feel comfortable for the moment, subject to further analysis, with a top rate of 25% or 30%.

Heavy Oil Development

As indicated during my testimony, we need to consider the impact of the introduction of heavier crudes on the Alaska North Slope. Some adjustment to the formula can therefore be recommended, in order to properly stimulate heavy oil development.   Such an adjustment could take various forms. Ideally, a relatively simple concept should be adopted.