



COMMONWEALTH
NORTH

A Focused Study of Alaska Oil Investment Tax Structure

Purpose:

Alaska's economy is built mainly on the production of and the exploration for oil. Projections show a deepening concern by Alaskans and private sector oil industry development partners on their ability to afford investments, growth and jobs. One-third of Alaskans owe their livelihood to oil exploration and development in Alaska, which includes not only jobs within the petroleum sector itself but also jobs throughout State and local government, finance, infrastructure, trade, construction and self-employed sectors, among others.

Oil production in Alaska has declined from 2.1 million barrels per day in 1988 to less than 700,000 barrels per day today, and is expected to continue to decline by more than five percent per year yet there are huge reserves of offshore and onshore oil to be developed. Exploration drilling activity in Alaska is down nearly two-thirds and over \$2.5 billion in North Slope oil projects have been deferred.

Other oil basins in the world that offer competitive advantages to investment in oil development, that are not offered by Alaska's existing policies, are thriving economically. How can Alaska reverse the current momentum of decline by creating a more attractive and competitive environment for expanding investment and reinvestment by the oil industry?

Charge:

It is the responsibility of Alaskans to ensure the State establishes a fiscal and tax structure that does not inhibit growth. Commonwealth North will conduct a study to determine if and to what extent investment in Alaska's oil resources is conducive under the current oil tax structure and what action may be taken to establish tax policy, amend law, and reform regulations to re-incentivize investment and increase the competitiveness of Alaska relative to other oil basins.

Timeline:

In order to make this report timely to the 2011 Legislative session, the goal will be to expedite this report and complete the study by February 2011. We will develop the relevant data to support our conclusions. This report will be followed by a Commonwealth North Forum on this subject and an information campaign to policy makers to ensure they understand this issue and the steps that should be take to address our recommendations.

Study Group Design Notes:

Write a simplified explanation of ACES -- written for the person who does not know/understand anything about how it works. This explanation will become the basic working tool of the study group.

Presentation Preliminary Outline:

- First presentation to the study group be by Department of Revenue explaining how ACES (1) benefits the State of Alaska and (2) how it does not benefit the State of Alaska along with (3) any suggested changes.
- Second presentation be by BP and Conoco-Phillips reps explaining how ACES (1) encourages investment or (2) discourages "big" oil companies from investing in further oil development in Alaska and (3) suggested changes.
- Third presentation be by both a "small" oil investment company (e.g. Ken Thompson, Managing Director of Alaska Venture Capital Group, an independent oil exploration group focused on North Slope investment) on (1) whether ACES encourages/discourages smaller oil companies investing in Alaska and (2) suggested changes. Second presentation by a legislative critic of ACES on whether ACES is working for the long-term benefit of Alaskans and if not, (2) suggested changes.
- With this factual background and data, BOD can then hear from other voices on what Alaska 's tax regime needs to be in order to achieve its dual goals of (1) providing reasonable current revenue stream and (2) encouraging continuing investment for future revenue streams.