

October 24, 2007

Representative Kurt Olson, Chair  
House Oil and Gas Committee  
State Capital Room 408  
Juneau, AK 99801-1182

The Honorable Chair & Members of the House Oil and Gas Committee,

The Alaska State Chamber of Commerce is concerned about the legislation, Alaska's Clear and Equitable Share (ACES) and the changes proposed to the tax structure of the recently enacted Petroleum Production Tax (PPT). The State Chamber believes changing the tax structure so quickly will have long-term negative impacts on the future of Alaska's economy. We believe that the consequences of adoption of ACES have not been fully considered with regards to all businesses in Alaska.

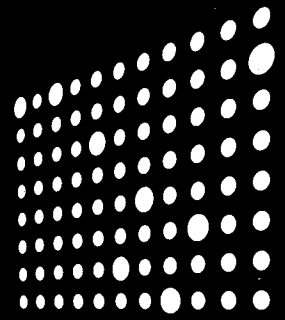
The Alaska State Chamber of Commerce is a business advocacy organization whose mission is to drive positive change for Alaska's business environment and to improve our member organizations by providing leadership, advocacy, connectivity and support. The policy debate on everyone's mind these days is the special session. During our most recent Board meeting, we noted the following observations.

#### Renewing Public Faith in PPT

State Chamber members have a strong commitment to ethical business conduct and understand your commitment to ethical conduct among elected and public officials. Because you have heard from Alaskans that their faith in the current petroleum production tax (PPT) is shaken, we understand the desire to see the production tax debated again but believe this comes with great risk. We urge caution in the rush to find a fix for something that may not be broken.

The concern is that while the Governor and the Legislature work to restore public faith, outcomes based more on emotion than economics will further chill the oil investment climate. A second concern is the stated goal of generating more revenue for the treasury. The chamber does not agree with that goal, and our members fear that Alaskans will confuse the outcome of higher tax revenue with the goal of fair share.

Our membership believes tax debate creates unwelcome risk and stalls investment planning and decisions. Taxes are a key consideration in all business investment decisions, so any time tax law is debated, investments can be delayed. The wrong tax rate can end all consideration of investment.



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Certainly working to induce investment such that the pipe is full of oil at \$80+/bbl would generate more revenue at the current tax rate than would a dwindling quantity of oil at a higher tax rate.

### RAISING THE TAX RATE

Most of our members do not understand the finer details of petroleum exploration and production. However, they all understand two major trends in Alaska's oil patch:

- Taxes on the oil industry have increased at a rate no other business segment could survive; and,
- Despite billions of dollars invested by the oil industry on the North Slope and in Cook Inlet, production continues to decline at an alarming rate.

Many have repeatedly noted this decline. To propose a new increase to the production tax is a risky policy given the desire to encourage increased production. We have watched a decade-old production tax regime for Cook Inlet - essentially zero - encourage very limited investment. On the Slope, recent investments were committed under the significantly lower ELF tax and historically high oil prices, yet the exploration activity pales in comparison to that taking place in Canada and the Gulf of Mexico.

Raising production taxes in light of limited investment is counter intuitive. Instead of referring to fiscal notes and revenue projections, we urge you to set the policy outcomes you desire in the oil patch and then debate language to achieve those outcomes. We suggest the following statement can guide the debate:

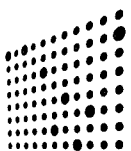
- Adopt an oil tax regime that will generate reasonable revenue for state government, while encouraging maximum utilization of oil reserves.

### FISCAL PLAN

The State Chamber has advocated for decades for a state fiscal plan. We applaud the identification of the fiscal dilemma our state faces, and the willingness of many to check spending. A clear plan, however, is not guiding spending or revenue collection, or the question of how the state can invest new revenue in projects that will render a return on investment. Given today's oil prices, the Alaska's Clear and Equitable Share (ACES) legislation proposes to collect surplus revenue for a fiscal system that results in increased spending but lacks a strategic business plan for the state. This policy outcome does not warrant worsening the investment environment.

### ALASKA'S BUSINESS IMAGE

As stated earlier, State Chamber members have a strong commitment to ethical business conduct. This includes our many members from the oil and gas industry. Given the daily headlines and investigations, our concern is that many Alaskans now view "business" negatively.



This impression is further fueled by the implications that the oil and gas industry has slighted the state through its accounting practices.

We encourage our policy leaders in Juneau to consider this dynamic and avoid making unfair accusations that further fuels this distrust of our Alaska businesses big and small. At the end of the day, differences of opinions exist and reasonable people can disagree.

#### TAX AUDIT EXPERTISE

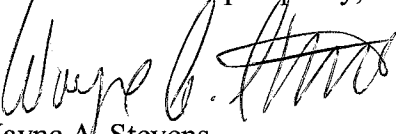
We offer assistance in boosting the state's tax audit capabilities. We are confident that if industry can acquire talent to administer a wide range of complex tax regimes throughout the world, Alaska can recruit the best and brightest to administer our single regime. This expertise will be found in a combination of state employees and private contractors.

#### TAX ON PROFITS IS GOOD FOR BUSINESS

Although we are concerned with a proposed minimum tax on certain fields, we would like to thank you for recognizing the wisdom of a profits tax. So many today illogically condemn petroleum industry profits. Alaskans should cheer since those profits will allow the same companies to make the world-class investments Alaska needs to monetize our oil and gas.

Thank you again for taking time to address these critical issues for Alaska's future. I would be delighted to meet with you to discuss the points above in further detail.

Yours in economic prosperity,



Wayne A. Stevens  
President/CEO

