DRILLING FUNDS AND THE ENERGY CRISIS

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ABSTRACT

The drilling fund has become a significant adjunct of oil industry financing, being responsible for approximately 300 million dollars per year of exploratory monies, the bulk of which goes to domestic exploration thru independent oil companies. However, the attractiveness of the drilling fund as an investment is heavily dependent upon present tax shelter features. In the present climate of re-evaluation of all Federal tax benefits, the oil industry must be prepared to show how present tax arrangements operate to encourage private investment in activities deemed of high National priority. Similarly, attention must be given to the entire economic effect of the drilling funds. Taking into account both the tax benefit and the probable yield of discoveries, the returns must be sufficient to attract private capital away from competing demands.

The following is an outline of points covered:

I **INTRODUCTORY**
  A. Basic structure of drilling funds.
  B. Basic tax benefits available.

II Evaluating drilling fund performance from the investor's standpoint.
  A. Rate of return method.
  B. Factors affecting yield.

III Evaluating fund performance from the public standpoint.
  A. Estimating the "revenue cost".
  B. Cost of discovery per barrel.
    1. Is industry average a fair standard?
    2. Comparative fund date.
  C. The "fairness factor" in a tax-benefit approach to stimulating investment.
  D. Discussion of current tax reform proposals as they affect drilling funds.

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