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Down to the Wire on SB 21 and ACES

**Industry Media Blitz Inundates Alaska Airwaves
With Advertisements Advocating Oil Tax Cuts.**

**But the North Slope's Big Three Continue
To Take In Extraordinary Profits
From High Oil Prices.**

(Look at ConocoPhillips.)

**Facing an Uncertain Future, the Public Has
A Crying Need for Facts, not Rhetoric.**

(Read: "Sense, Nonsense and the Power of the Big Three")

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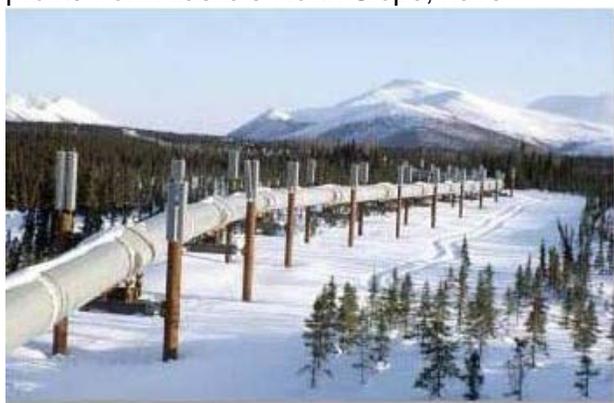
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Background: [SB 21](#)

By Richard A. Fineberg

July 3, 2014 (updated October 24, 2014)

The Alaska petroleum industry and its supporters, dominated by three major transnational companies that reap significant profits from Alaska's North Slope, have



unleashed a media blitz to keep SB 21, the replacement oil tax measure that was enacted in April 2013, went into effect this year and is subject to repeal in the August 19 statewide primary election.

Voting "yes" to repeal SB 21 would enable restoration of the cost-based and progressive ACES tax measure implemented in 2007, under

Welcome

(August 2004 -- Updated December 2012)

Over the last eight years FinebergResearch.com has gathered and presented fact-based information and commentary about economic and environmental aspects of oil industry operations in Alaska, with special emphasis on the North Slope oil fields and the Trans-Alaska Pipeline System (TAPS). Due to the oil industry's power, political clout and media skills, much of the information you will find here is not widely reported or readily available elsewhere.

Three major petroleum companies -- BP, ConocoPhillips and ExxonMobil (originally Sohio, ARCO and Exxon) -- control more than 95 percent of North Slope production and, in 2012, are in the process of increasing a similar share of the Alyeska Pipeline Service Company (the builder and operator of TAPS) to 100%. The sprawling North Slope complex centers around Prudhoe Bay, where oil is pumped from beneath

which both the industry and the state have profited handsomely.

The first of two charts that shed light on this controversy shows the extraordinary profitability of North Slope operations under ACES; the second deals with a grossly distorted picture of future profitability distributed by ConocoPhillips. For an updated analysis with new information on these charts, see [A Tale of Two Charts: North Slope Profitability, SB 21 and ACES](#).

This writer's "[Sense, nonsense and the power of the Big Three on Alaska's oil patch](#)," originally appearing June 21 on *Alaska Dispatch* and later posted here, examines economist Scott Goldsmith's attempt to compare state oil tax measures at issue in Proposition #1 August 19.

[A shorter opinion piece by this writer](#), which originally appeared in the *Anchorage Daily News* June 22 as a "Compass" community perspective, summarizes reasons for voting "yes" to repeal SB 21 August 19. On returning to ACES, to ensure appropriate state-industry sharing in the event of future oil price spikes, after careful consideration of costs and prices a cap on progressive returns at high prices should be installed.

This analysis concludes that the Goldsmith report, aggressively publicized and advertised when released May 1, was narrowly focused and failed to discuss the importance of the following significant economic factors that deserve consideration in the formulation and execution of the state's petroleum fiscal policy:

- consolidated control over the North Slope oil reserves exercised by three major transnational oil companies -- British Petroleum, ConocoPhillips and ExxonMobil;
- dimensions of the extraordinary profitability these three companies have derived from North Slope operations since the ACES regime was enacted in 2007;
- the economic attractiveness of the 5.9 billion barrels of discovered North Slope reserves - sufficient to last through mid-century at current production rates;
- the fact that geology - not ACES - is responsible for the North Slope production decline that began in 1988 (nineteen years before ACES was enacted);

the frozen Arctic substrate and prepared for the 800-mile journey across Alaska to the ice-free port of Valdez; at the Alyeska terminal, oil is loaded on tankers bound for the West Coast. Although the North Slope was by far the nation's largest producing complex at its peak of two million barrels per day a quarter century ago, North Slope production has been in decline for two decades and is now between 500,000 and 600,000 barrels per day.

While declining production and its consequences for the future rightly draw major attention from a policy standpoint, the current dialogue often suffers from exaggerated fears of dependence on foreign crude supplies and failure to recognize, among other things, the recent dramatic

reduction in petroleum imports due to conservation, induced in large measure by high oil prices. Moreover, even at today's reduced production levels, those high oil prices still bring producers significant revenue from North Slope crude oil.



During the 4½ decades since the discovery of the nation's largest oil field at Prudhoe Bay on Alaska's North Slope, events from Watergate to the collapse of energy companies such as Enron and, subsequently, financial institutions in the recent the financial crash demonstrate that large institutions frequently fail -- often by grotesque margins -- to live up to legal and moral obligations and to deliver on their public pronouncements. Concurrently, the major Alaska oil companies that play a predominant role in Alaska development have displayed a chronic and troubling discrepancy between promise and practice.

Despite lavishly funded advertising campaigns and public relations efforts urging that Alaska's oil companies can be trusted as the avatars of social salvation, closer examination reveals a profound gap between what these companies say and what they do. With equally disturbing regularity, when confronted with evidence of those failures, government has failed to protect the public interest.

Against this backdrop, Alaska's North Slope development and its pipeline link to market continue to provide unusual opportunities to observe the actions of decision makers, as well as greater access to the central participants than most other places afford. The information presented here points to

the history of industry underpayments to the state and overcharges for shipments on their Trans-Alaska Pipeline System (TAPS) market link;

- the state's problems obtaining and auditing production cost data - a key element in determining profitability; and
- the significance of globally determined oil prices, the acknowledged uncertainty and volatility of which are capable of nullifying the desired effects of state tax policies.

Eight weeks after making headlines defending SB 21 by attacking its opponents, when he held a public meeting in Anchorage June 27 to discuss his economic model Goldsmith refused to discuss political considerations. At the outset of that workshop, immediately after stating that he had taken what he called a lot of unnecessary "crapola" for his earlier presentations Goldsmith ordered those attending to sign in, write down their affiliation and agree to confine their questions to technical aspects of his model while refraining from discussion of policy implications of his economic theories. Combined with his sometimes vague and confusing responses to the technical questions he received, the limitations Goldsmith imposed confirmed the validity of the criticisms he had received. In any event, information from that workshop has not altered either the content or conclusions of this writer's critiques of June 21-22, which are substantively unchanged in this posting.

Background on the Flawed Passage of SB 21

August 2013 (Rev.) -- Despite Senate majority claims of "exhaustive" deliberations before passing SB 21 on the last day of the 2013 session, majority legislators overlooked important defects in administration testimony and charts presented by ConocoPhillips, the North Slope's largest producer. Policy-wise, SB 21 proponents erred by demanding nothing in return for these significant gifts to North Slope producers: (1) retaining the cost-based production tax regime while (2) destroying (instead of correcting) the progressivity component of that tax; and (3) further tilting the North Slope playing field toward the major producers by linking tax credits to production instead of exploration.

two significant conclusions:

- (1) petroleum developers can and frequently do use pipelines to maximize profit and inhibit competition, to the detriment of host populations; and
- (2) the chronic discrepancy between promise and practice on major oil projects frequently places the populace and the environment at significant and needless risk.

Reports on pipeline and petroleum development issues on this web site may be understood as case studies providing insight into the relationships among powerful corporate and government institutions. This web site explores the economic and environmental impacts of these interactions in concrete terms in the hope that well-informed individuals can and will make a positive contribution to the course of human development. A premise underlying this research is that it falls to each of us, as citizens, to keep our policy dialogue fact-based as we inform ourselves, analyze and respond appropriately to the events that shape the issues we face. Based on the factual information presented here, readers can come to independent judgments regarding the authenticity of the content, the significance of the relevant facts and the logic and appropriateness of the conclusions. In any event, the topics reported here should be capable of standing for themselves as a documented case studies in petroleum development and public policy.

The studies presented here have been researched and compiled by Richard A. Fineberg, founder and principal investigator of Research Associates of Ester, Alaska. Fineberg has observed Alaska petroleum development for more than three decades as a prize-winning reporter, as an advisor to the Governor of Alaska on oil and gas policy and as an independent consultant to investors, government agencies and non-profit organizations.

In recent decades, Fineberg's research horizons were expanded to include observation of oil development in two oil provinces at opposite ends of the Former Soviet Union -- the Caspian Basin and Sakhalin Island. Collectively, these forays suggest the possibility that exploration of Alaskan oil issues may produce case studies that will inform the general understandings of the politics of oil. Whether or not this proves to be the case, conclusions from the studies conducted in the northwest corner of the North American continent will validate the significance of the Alaskan oil research presented on this web site.

SB 21 background information by Richard Fineberg:

[The Disappearing Chart and Other Questions the Legislature Failed to Consider when the Legislative Majority Signed Off on SB 21 In the Last Days of the 2013 Legislative Session](#) , text accompanied by slides, presented at the Noel Wien Library, Fairbanks, July 1, 2013 (posted July 25, 2013).

["Library presentation on oil tax leads to pointed exchange on quality of legislative review,"](#) article by Dermot Cole, *Fairbanks Daily News-Miner* (posted July 2, 2013; printed July 7, 2013, p. B-1).

[SB 21 and Petroleum Revenue Policy: Six Subjects Requiring Further Consideration](#), independent report, April 4-8, 2013 (posted July 17, 2013; text and attachments to this report provide background and documentation with examples of information legislators did not address in considering SB 21).

["Tough questions unasked: Slipshod review justifies referendum on SB 21,"](#) *Fairbanks Daily News-Miner*, July 9, 2013 (Community Perspective).

A Recent SB 21 Report March 20, 2014

[The Alaska Oil Tax Cut Controversy: A Case Study \(In This Era of Information Overload, Does Our Political System Enable Tall Tales to Triumph?\)](#), text accompanied by slides presented at panel session, "Where Sustainability Meets Policy" (Society for Applied Anthropology [Albuquerque, New Mexico]).

The Prelude to SB 21: Earlier comments and observations on the Alaska State Legislature's 2011 and 2012 petroleum taxation and fiscal policy deliberations

[October 16, 2012 Update]

As major oil producers, the governor and citizen supporters attack legislators who oppose the proposed major cuts in the state's oil tax, analysis of ConocoPhillips (CP) SEC reports reveal that since Alaska adopted a cost-based, progressive production tax regime in 2006: (1) CP has made steady profits from Alaska, in contrast to mixed returns elsewhere, while (2) CP anticipates Alaska under the present tax regime will remain CP's top performing region.

["Alaska's tax structure now is good to oil,"](#) *Anchorage Daily News*, Oct. 14, 2012 (Compass) and ["Oil profits weather 'Hurricane' -- ConocoPhillips expects Alaska to outperform every other oil province,"](#) *Fairbanks Daily News-Miner*, Oct. 14, 2012 (Community Perspective).

[May 2012 posting]

Fineberg's earlier Comments and observations on the Alaska State Legislature's 2011 and 2012 petroleum

taxation and fiscal policy deliberations:

[Mysterious Oil Numbers Tell A Troubling Story in Juneau: Adding "H" to ACES, You Get Aches \(Alaska's Confusing, Hidden and Eluysive Share\) and PAINS \(Piecemeal, Artificial, Incomplete Number Systems\)](#), posted May 8, 2012 (archived Dec. 26, 2012).

[Establishing a Rational Foundation for Review, Formulation and Implementation of Alaska's Oil and Gas Fiscal Policy](#), April 7, 2011 [rev. April 2012], 79 pages.

[Letter to Senator Bert Stedman](#), Co-Chair, Senate Finance Committee, April 2, 2012 [rev. April 7, 2012], 21 pages (includes March 22, 2012 testimony on HB 9).

[Letter to Senator Joe Paskvan](#), Chair, Senate Resources Committee, April 9, 2012, 5 pages.

["Solid info critical to resolving oil economics."](#) *Anchorage Daily News*, April 21, 2012 (Compass).

["Aches, pains and oil taxes: The weaknesses in governor's plan were coming out."](#) *Fairbanks Daily News-Miner*, May 6, 2012 (Community Perspective).

Other Posts on Oil and Gas Issues (2004 - 2014)

Since 2004 this web site, which was initiated with focus on Trans-Alaska Pipeline System (TAPS) operations and economics, has posted many other articles on other Alaskan and international oil and gas issues on an occasional basis.

To check out the contents of this web site, use the navigation bars at the top right-hand side of this page for postings under the following headings:

The Oil Patch (*Trans-Alaska Pipeline System [Economics]; Trans-Alaska Pipeline System [Environmental]*)
Reports and Research Memoranda (*Alaska [Oil and Gas Production and Revenue Issues; Trans-Alaska Pipeline System [Economics]; Trans-Alaska Pipeline System [Environment]; Oil Spills; Sakhalin; Caspian Basin; Belize]*)
Archives (*loosely chronological record of everything posted*)

You can also use the Google search bar, recently installed at the top of this page, to search for references to specific words in the text of posted articles.

A selected sampling of posted articles follows:

The United States Joins EITI: A Case Study in Theory and Practice

To access a PDF copy Fineberg's January 2014 article in [The Journal of World Energy Law and Business \(Oxford University Press\)](#) for personal research and study purposes, [click here](#).

(Parties wishing to make commercial use of this article should contact journals.permissions@oup.com.)

Reports on TAPS Problems with Pigs

To download the December 2012 report on TAPS problems with pipeline pigs, [click here](#).

To read the follow-up news analysis on TAPS pigs that appeared on TRUTHOUT (Feb. 25, 2013, on-line) and the FAIRBANKS DAILY NEWS-MINER (Mar. 10, 2013), as submitted, [click here](#).

The Reduced Oil Imports Report:

Conservation Gains (2012 - 2030): 46.9 billion barrels

Arctic Refuge Drilling (2012 - 2030): 1.8 billion barrels

[Updated Report on EIA Data \(Jan. 14, 2012\)](#)

The synopsis of this report, which compares potential Arctic Refuge oil production to EIA's estimate of U.S. conservation gains between now and 2030, was published in the educational text, *Should Drilling Be Allowed in the Arctic National Wildlife Refuge?* (Greenhaven Press, 2013, ch. 2).

Previous Fineberg Posts on Sarah Palin (Archived 2010):

First-Hand Looks at Sarah Palin's Wacky World

The following (archived Aug. 25, 2010) are still available for viewing in the Archives (many in downloadable PDF format):

[Under a Rogue Star](#) chronicles Sarah Palin's late-2009 book tour and the Alaska oil spills that silently accompanied her -- a clear demonstration of the results of her general failure as governor to pay attention to what she was doing and her particular failure to protect the environment.

[ACES in Palin World](#), from December 2009, takes a clear look at what really happened during the Special Legislative Session of October-November 2007, in which the Legislature (reversing Governor Palin's proposal) established progressivity for the state's production tax.

A [November 2009 post](#) covers the Alaska Risk Assessment project, a Palin administrative wreckage that has attracted little national attention to date.

Completing the Palin package on this web site, the following articles were previously archived:

[Click here](#) to review July 2009 posts providing more information on the Alaska Risk Assessment project and other problems Palin left behind when she resigned as governor.

In July 2008, I prepared a [report for the Alaska Public Interest Research Group](#) on major unanswered questions regarding Palin's Alaska Gas Line Inducement Act (AGIA) and the natural gas pipeline tariff regime. Following up, I put together a packet of documents ("The Palin Papers") that I gave to Governor Palin. During that brief encounter, I requested a sit-down meeting to explain my respectful disagreement with her natural gas team. The governor was either unwilling or unable to meet with this former member of her consulting team and never responded to these concerns. Two weeks later, she ascended to the national stage. [Click here](#) for the story.

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