Complete Copies of Press Articles on Petroleum Development and Budget Deficit Issues summarized in the February 21, 2017 web site article on Petroleum Propaganda, Facts and Analysis

In reviewing the published and posted press articles summarized in this web site analysis, it should be noted that complex economic issues of petroleum development have been out of the newspaper spotlight, and important details have consequently remained out of focus. To demonstrate the need to pay careful attention to the consolidation and the conduct of the three major North Slope producers, this web site presents complete copies of the following recently posted articles (as well as a link to my previously posted web site analysis):

[1] "'Tax the oil companies more' is not the answer to Alaska's fiscal plight," by **Kara *Moriarty*,** *Alaska Dispatch News,* October 8, 2016 (opinion).

[Accessed Nov. 9, 2017 at https://www.adn.com/opinions/2016/10/08/tax-the-oil-companies-is-not-the-answer-to-alaskas-fiscal-plight/]

Anchorage attorney Robin Brena, a well-known political fundraiser, recently posted two opinion pieces with suggestions for how to solve Alaska's fiscal crisis. His proposal suggests that the oil industry be tasked with funding the entirety of the state of Alaska's $3 billion-$4 billion deficit, which would essentially demand increasing taxes on oil companies by more than 300 percent to 400 percent. This response is not meant to simply offer additional rhetoric. Reasonable people can disagree on what the appropriate and prudent path might be for the state moving forward. Brena is certainly entitled to his own opinion. However, he is not entitled to his own facts.

Fact 1: Low oil prices are responsible for Alaska's budget shortfall, not the tax policy.

Alaska has seen a sudden and dramatic decrease in petroleum revenues but that drop is driven solely by price, not tax policy. Those who blame our current tax policy as the reason for the deficit should know that Department of Revenue Commissioner Randy Hoffbeck has repeatedly stated, "SB 21 (current tax policy) brings in 'substantially more' revenue to the State at low prices than ACES (former tax policy)." (Senate Finance Committee, Jan. 26, 2015) Regardless of how you might feel about our current predicament, blaming our current tax regime is misplaced.

Fact 2: Increasing taxes on an industry with negative cash flow is bad economic policy.

Some suggest going back to a historical "fair share" of petroleum revenues. Let's examine what "fair share" really means. According to the Department of Revenue, the average cost for companies to produce and transport a barrel of oil from Alaska to market is about $40 per barrel. This is before industry pays any federal, state or local taxes, not to mention the pipeline and marine costs to move the oil to market. Forty dollars per barrel is barely below average oil price since January ($41 per barrel). Even when prices were lower (December 2015 through March 2016) and it cost the industry more to produce and transport the oil than it cost to sell the oil, the state still received petroleum revenue, including production taxes. How are Alaska oil producers supposed to absorb a 300 percent-400 percent tax increase, or any tax increase for that matter, when the industry is currently struggling just to break even?

Fact 3: The state continues to receive a fair share of oil revenue, even at low prices.

In his opinion piece, Brena compares gross value of the product versus the net revenue industry pays. He used the example that in 2012, the gross value of Alaska oil production was $24 billion and the state was receiving $8.5 billion in petroleum revenue. The opinion piece went on to say that in 2015, the gross value decreased to $13.8 billion and the state was receiving just over $1.1 billion. Brena asserts that this is not a fair share because it is lower than the state's 35 percent historical percentage share of petroleum revenues. But if you look at the numbers in this way, the dramatic drop in oil prices in four years decreased the gross value by $10.2 billion but the state revenue decreased by $7.4 billion during that same time frame. In other words, even though state revenues have been deeply affected by oil price, the industry's financial losses have been greater.

[Alaska Gov. Walker proposes sales tax, oil tax increases to kick off special session]

Either way, the loss of revenue during a price decline illustrates the fundamental problem: *The state's share of oil revenue is so enormous that the current price has resulted in significant revenue losses to the state.*

However, even at these low oil prices, and after credits are accounted for, the overall government share (state, federal and local) of revenues in Alaska is still about 75 percent (IHS Energy).

As for adding progressivity back into the mix, it's hard to express just how bad a move that would be. Why on earth, when the state of Alaska just saw its first increase in oil production in 15 years, would we go back to a policy that failed to increase production or investment? In fact, even when oil prices were high, investment was stagnant and oil production continued its decline. Alaska voters flatly rejected progressivity two years ago, and for good reason: If Alaska wants to increase oil production, we need investment dollars. If we resurrect progressivity, we lose investment. Period.

Fact 4: Raising oil taxes will just reduce investment in the state when Alaska needs it most.

Finally, if producer taxes were increased yet again, where would that money come from? Brena suggests that the industry can easily afford $3 billion in new taxes. Here's the harsh reality: At these oil prices, paying any additional tax will force companies to cut their spending in Alaska and a $3 billion increase will cause massive reductions in capital and operating expenses. That leads to less oil production in the short term and virtually guarantees rapid oil production declines in the future. Any reduction will cost many more Alaskans their jobs. This isn't semantics; it's common sense. Alaska would be cutting off its nose to spite its face under this scenario.

Fact 5: Alaska is not running out of oil and we are not living in the waning days of an oil economy.

It is remarkable that despite this drawn-out period of low oil prices, we continue to see incredible development opportunities in Alaska. Just this week, Caelus Energy Alaska announced a major new find that could rival the Arctic National Wildlife Refuge in terms of oil in the ground. Alaska alone is home to one-third of all the oil and gas reserves in the United States and that is just what we know about. So we have plenty of oil left to produce; the question is whether Alaska's policies will support developing it or leaving it in the ground.

[Cheap oil is here to stay. So why does our budget pretend it isn't?]

As an old saying in Alaska goes, we don't have problems below ground in Alaska: We are home to world-class, oil-rich rocks, as Caelus can testify. Instead, our challenges in Alaska are above ground: constantly changing tax policies and, frankly, political gamesmanship. The dilemma for Caelus and all companies looking to develop new sources of oil is whether the state of Alaska will offer a stable fiscal environment or engage in political decision-making that makes project economics untenable. If Alaska goes that route, Alaska will lose out on these opportunities when companies move their investments elsewhere.

Fact 6: We need new ideas; raising oil taxes can't save us this time.

Alaskans need real solutions, not bumper sticker rhetoric. It should be noted that Brena's name will sound familiar to Alaskans who are hearing his name listed as one of the top contributors to a political action committee. This group is using misleading political statements and blaming oil policy as the reason for the state deficit, which is false. Oil prices, not tax policy, caused the state's budget shortfall. It is time for all concerned Alaskans to think outside the "just tax the oil companies more" box and advocate for solutions that will actually fix the problem.

***Kara Moriarty** is executive director of the Alaska Oil and Gas Association.*

*[2]_*"AOGA's take on oil tax policy skips vital information,"

by **Richard A. Fineberg**, *Alaska Dispatch News*, January 4, 2017
(Commentary [on Kara Moriarty's October 8, 2016 opinion]).

[Accessed at https://www.adn.com/opinions/2017/01/04/aogas-take-on-oil-tax-policy-skips-vital-information/].

The opinion pieces Kara Moriarty, president of the Alaska Oil and Gas Association, prepared for the Alaska Dispatch News (Oct. 8) and Fairbanks Daily News-Miner (Oct. 22) demonstrated a surprising and unfortunate tendency to omit information highly relevant to petroleum development.

Moreover, Moriarty failed to provide readers with facts about Alaskan economics and politics that included:

• Basic data on bottom-line revenues;

• Extreme consolidation of the three major North Slope producers;

• Dubious conduct of the major producers, as demonstrated by their annual pipeline tariff overcharges and repeated distribution of misinformation;

• Shortcomings in state governance.

Based on decades observing Alaska petroleum development, I have concluded we should reject her published reports for the following reasons. Although most of her so-called statements of fact were questionable conclusions, in her text she presented those opinion statements as numbered facts.

But careful analysis reveals many of her conclusions were wrong because they were compromised by erroneous statements and/or omitted information, while some others were just general propositions.

[7 ways Alaska could end oil tax confusion and clarify revenue issues]

For example, Moriarty's broader statement that it's "misplaced" to blame the state budget shortfall on Alaska's oil tax policy, which accompanied her first so-called fact in both commentaries, can be dismissed as incorrect for this reason: When viewed in multiyear perspective, the former progressive tax revenue provision known as "ACES" (effective in 2006; replaced by SB 21 in 2013) greatly reduced the state budget shortfall at low oil prices by increasing industry tax payments to the state when oil prices were high.

But even though data on ConocoPhillips profitability indicates the progressive ACES tax regime had enabled the major producers to maintain strong profits at high prices while assisting the state, the 2013 policy change replaced the progressive ACES tax provision with the industry-supported flat tax cut.

This policy change significantly increased industry revenues at high prices, while reducing the state's future ability to continue financing public services when global oil prices dropped. For this reason, this analysis indicates tax policy is an important fiscal factor.

[Alaska needs to make deep cut in oil tax credits, and soon]

Additionally, in the opening paragraph of her Oct. 8 ADN opinion piece, Moriarty asserted Robin Brena, a veteran attorney with whom she disagreed, "is certainly entitled to his own opinion … (but) he is not entitled to his own facts."

While failing to mention he had successfully opposed the industry in court for decades, she also failed to acknowledge his numbers confirmed the 2013 replacement of the progressive "ACES" regime had reduced the industry's past share of tax payments from approximately one-third of net revenues to a much smaller 8 percent.

Additionally, she had borrowed the phrase to criticize Brena from the past writing of the late New York Sen. Daniel Patrick Moynihan, a sociologist who had taught the American public many years ago to distinguish facts from opinions with the statement "(e)veryone is entitled to his own opinion, but not his own facts."

Moynihan was referring to public understanding in general terms, and Moriarty failed to make clear why this statement pointed to Brena, when she was sharing his background numbers.

To consider how this current budget crisis hit the state of Alaska, in thinking outside the box, the first task of this analysis should be to put shallow and unsupported generalizations aside.

Next, to improve economic understanding, we should demand clear information on petroleum development, summarized with annual data and also viewed in multiyear perspective, while taking a closer look at changing global economic factors and Slope profitability data. To accomplish this goal, the state should convert state fiscal-year reports to calendar-year data, so Alaska's corporate profitability can be compared to corporate data and global economics.

Additional information would provide further support for this analysis, which I put together from decades spent observing the extreme consolidation and dubious conduct of the three major Slope producing companies, can be found on my website at www.finebergresearch.com.

Richard A. Fineberg *is a longtime oil and gas researcher and analyst. He lives in Fairbanks.*

[3] **"Setting facts straight on oil rhetoric,"** by **Kara Moriarty,**
Fairbanks Daily News-Miner, October 22, 2016 [p. A6]
(community perspective opinion)

and

[4] **"Analysis of 'Setting facts straight on oil rhetoric',"** by **Richard A. Fineberg**, written December 14, 2016 (web site review [of Kara Moriarty's Oct. 22, 2016, 2016 opinion], formally posted at this web site in January, 2017).

The original article by Kara Moriarty (item **[3]**) and my accompanying point-by-point analysis of that article (item **[4]**), both of which were previously posted on this web site home page, can be accessed from the Dec. 14, 2016 "Fact-based Corrections to Oil Rhetoric" box (immediately above "Research," at the top of this web site page).

Note: The appendix to item ***[4]*** *in this previous web site posting is of particular importance because its charts demonstrate, among other things:*

- *The remarkable increase in petroleum prices between 1998 and the 2014 price crash, which has enabled both the producing companies and the state to reap significant profits from North Slope production during this period*

  and

- *Annual data on ConocoPhillips profitability under the former progressive ACES tax regime, in which that company's strong and steady profitability under ACES stands in marked contrast to that company's erratic global performance over the same period.*

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***[5]* "Critiquing a flawed Alaska oil Analysis,"** by **Richard Fineberg,** January 15, 2017, *Fairbanks Daily News-Miner* [pp. F2, F4], (community perspective review [of Kara Moriarty's October 22, 2016 opinion]).

[Accessed Jan. 15, 2017 at http://www.newsminer.com/opinion/community_perspectives/critiquing-a-flawed-oil-analysis/article_b25be8fc-da08-11e6-8e0d-d3b1917989d1.html (This text appeared in the hard-copy edition of the Fairbanks Daily News-Miner on Sunday, Jan. 15, 2016, under the heading, "Critiquing a flawed Alaska Oil Analysis," pp. F2-F4).]

News-Miner Community Perspective:

Opinionated reports that Ms. Kara Moriarty, President of the Alaska Oil and Gas Association, prepared for the News-Miner on Oct. 22, 2016, demonstrated numerous mistakes, as well as significant omissions of information highly relevant to petroleum development.

Based on an overview perspective, it becomes clear that her articles failed to provide readers with facts about Alaskan economics and politics that included:

• basic data on bottom-line revenues;

• extreme consolidation of the three major North slope producers (currently British Petroleum, ConocoPhillips and ExxonMobil);

• dubious conduct of these major producers, as demonstrated by their annual pipeline tariff overcharges and repeated distribution of misinformation;

• shortcomings in state governance.

Because of Ms. Moriarty's position, it is no surprise that her Community Perspective article reflected a pro-industry bias. But it is surprising that although her essay, headlined "Setting facts straight on oil rhetoric," appeared to be eloquent and well informed, content analysis reveals that her article contained significant flaws in each of her paragraphs.

For example, Ms. Moriarty's first so-called statement of fact in the Oct. 22 article — in which she stated, "Low oil prices are responsible for Alaska's budget shortfall, not the tax policy" — was erroneous for the following reason: The former progressive tax revenue provision, known as "ACES," greatly reduced the state budget revenue shortfall when prices were low by increasing industry tax payments to the state when oil prices were high. When viewing annual data under ACES in multi-year perspective, it was clear that even though the data on the profitability of ConocoPhillips indicated the progressive ACES tax regime had enabled the major producers to maintain strong profits at high prices while assisting the state, the 2013 policy change replaced the progressive ACES tax provision with the industry-supported flat tax cut. This recent policy change significantly increased industry profits at high prices, while reducing the state's future ability to continue financing of public services when global oil prices dropped. Review of this recent historical development therefore demonstrates that tax policy has important fiscal consequences.

Because of the complexity of petroleum development issues, careful analysis is necessary to provide a balanced overview of the current situation. In this regard, it should also be noted that Ms. Moriarty failed to recognize the importance of multi-year analysis and instead relied on annual data to frame her over-simplified and narrowly focused approach, which failed to recognize the socio-economic aspects of Alaska petroleum development. Significantly, she did not point out the fact that Alaska's North Slope petroleum development has been unusually concentrated in the hands of just three major oil companies that have maintained control of more than 90 percent of state oil production since the discovery of the nation's largest oil field nearly half a century ago at Prudhoe Bay. This consolidation of North Slope oil development — currently dominated by the three major producers — stands in marked contrast to oil production structures in the Lower-48, where North Dakota's recent production list shows that in that state it would take approximately 20 companies, not just three, to reach that percentage of total production. Taking advantage of this unusual consolidation in Alaska, the three major producers also own a similar share of the Trans-Alaska Pipeline System (TAPS), which is a key market link for all North Slope producers, including their competitors.

In continuing this analysis, the following aspects of industry taxation, also overlooked by Ms. Moriarty, are noteworthy:

1. The state requires steady funding to fulfill its public service responsibilities, while the oil industry invests in an uncertain future with risks that ACES progressive regime clearly addressed. *[Cont. to: OIL F4]*

2. The unusually consolidated structure on the North Slope has enabled producers to increase their profits at the expense of their competitors and the state through pipeline tariff overcharges. The chronic TAPS overcharges, also unmentioned in Ms. Moriarty's article, constituted a display of dubious company conduct that prevailed during Alaska's petroleum development. But this wasn't the only questionable performance by the major North Slope producers.

3. An important aspect of questionable industry conduct, also unmentioned by Ms. Moriarty, was demonstrated by the distribution of misinformation by major North Slope producers in 2013 and 2014.

With regard to misleading information distributed by a major North Slope producing company, one example stands out. During the industry's legislative tax cut campaign in 2013, ConocoPhillips repeatedly distributed a flawed and misleading chart. This erroneous document featured a diminishing green swath labeled “ACES Marginal Industry Share.” On this chart, the term was left undefined, specific data was not presented and the bars were displayed as equal in height, with state portion increasing as prices rose, due to what ConocoPhillips called the “progressivity effect.” This chart therefore created the exaggerated, false impression that ConocoPhillips profits under ACES significantly declined at state expense as current oil prices increased from $80 to $130 per barrel. In fact, because the undefined term “marginal” represented additional (not total) revenue, the opposite was the case. Nevertheless, ConocoPhillips included this misleading chart with its suite of slides on six separate legislative presentations during the campaign to reduce the state’s progressive oil tax.

While the repeated distribution of the ConocoPhillips chart in 2013 was not the primary focus of the industry’s tax cut quest, it should be noted that during the two-year campaign, this was not the only source of confusion. In 2014, multiple distributions of this misleading chart were followed by an erroneous television advertisement on earlier North Slope production history that was repeatedly run by BP, one of the three major partners in the consolidated North Slope. These successive examples of misleading information suggest that the major North Slope producers may have been deliberately confusing the public, a charge of which Ms. Moriarty is not necessarily guilty.

But based on decades in which I have been observing Alaska petroleum development, I have also found that the first ten paragraphs of Ms. Moriarty’s Oct. 22, 2016, Community Perspective all contained errors that undermined the arguments of her 11th and final paragraph, in which she argued against increased taxation. For example, three of her so-called statements of fact — each numbered for emphasis — consisted of one incorrect statement and two highly questionable opinions. Of the seven remaining paragraphs that led to her conclusion, each contained one (and sometimes more) of flaws that included incorrect statements, omissions of important facts, over-simplification and the failure to distinguish facts from opinions.

In light of this review, I have concluded we should reject Ms. Moriarty’s opinionated essays. While her mistaken conclusions may indicate that she is a victim of corporate misinformation, my analysis demonstrates that because many of her arguments on oil industry economics were based on incorrect statements and omissions, her text frequently jumped to erroneous conclusions that distracted attention from the adverse effects of the Alaska oil industry’s successful tax cut campaign. For this reason, I found it useful to produce a more detailed analysis in order to provide the public with better information. That Dec. 14 review, based on my analysis of her faulty article, can be accessed on my website, www.finebergresearch.com/.

It is ironic to note Ms. Moriarty had borrowed a phrase from the past writing of Daniel Patrick Moynihan, a famous senator and sociologist, to criticize those with whom she disagreed. Moynihan had taught the American public many years ago to distinguish facts from opinions with the statement, “Everyone is entitled to his own opinion, but not his own facts.”

Moynihan was referring to public understanding in general terms, and Ms. Moriarty failed to make clear why she applied this statement to her critics, instead of looking in the mirror.

Richard Fineberg is an economist and longtime Interior resident.

***[6]_*"Getting real on oil analysis,"** by **Richard A. Fineberg,**
Fairbanks Daily News-Miner, Jan. 23, 2017 [p. A6] *(*letter to the editor)

'[Accessed Jan. 23, 2017 at http://www.newsminer.com/opinion/letters_to_editor/getting-real-on-oil-analysis/article_8d89ac24-e13a-11e6-a61a-9f14ab7972c9.html (note: this Letter to the Editor was submitted by Richard A, Fineberg on Jan. 17, 2017)]

Fairbanks Daily News-Miner, Jan. 23, 2017

To the Editor: In the community perspective article, "Critiquing a flawed Alaska oil analysis" (published in the *News-Miner* on Jan. 15), I called attention to numerous flaws in a previous article by Kara Moriarty, "Setting facts straight on oil industry rhetoric," which appeared in this newspaper on Oct. 22 (2016). Based on many years I spent working and reporting on petroleum development in Alaska, my recent article highlighted significant aspects of this subject that include the extreme consolidation and dubious conduct of the three major North Slope producers. Looking forward at the same time, I think it will be useful to provide readers with the concluding addition to my Jan. 15 article in the next paragraph.

To consider how to deal with the recent budget crisis that has hit the state of Alaska, our first task is to put shallow and unsupported generalizations aside. Next, to improve economic understanding, we should demand clear information on petroleum development, summarized with annual data and also viewed in multi-year perspective, while taking a closer look at changing global economic factors and North Slope profitability data. To accomplish this goal, the state should convert state fiscal-year reports to calendar-year data, so that corporate profitability from their Alaska operations can be compared to corporate data in federal and global economics.

Additionally, to confirm that both last Sunday's article and its reference to my Dec.14 review of the flawed Oct. 22 essay are based on a thorough analysis, readers can access my previous Dec. 14, 2016 article, "Fact-based Corrections to Oil Rhetoric," from the box at the top of my web site home page, immediately above the heading, "FinebergResearch.com.

Richard A. Fineberg
Fairbanks

[7] **"Bill would change oil tax credits,"** by **Becky Bohrer** (Associated Press), *Fairbanks Daily News-Miner*, February 9, 2017 [p. A1] (news article).

[Accessed Feb. 9, 2017 at http://www.tulsaworld.com/house-bill-would-change-alaska-oil-tax-credit-system/article_37843e95-0461-5f0a-9492-bfe1a990edaa.html)]

JUNEAU, Alaska (AP) — Democratic House majority members on Wednesday proposed changes to an Alaska tax credit program that financially rewards oil exploration and production but is seen by critics as too pricey amid a multibillion-dollar state deficit.

The bill was introduced on behalf of the House Resources Committee by co-chairs Geran Tarr and Andy Josephson, both Anchorage Democrats, over the objection of minority Republicans who didn't want their names associated with the proposal.

The measure would, among other things, raise the minimum oil production tax and eliminate cash payments for future credits earned by small producers and explorers. State Tax Division Director Ken Alper said the bill appears to apply to credits awarded in 2018 and beyond and that current credits would remain cashable.

Tarr told reporters the state has an overly generous system of credits and sees the bill as a starting point for discussions.

Alaska Oil and Gas Association President Kara Moriarty said she doesn't think the public recognizes the magnitude of the changes made last year and said provisions in the new bill will negatively affect the industry.

Gov. Bill Walker recently said he doesn't see how the state can have a complete fiscal plan without addressing oil taxes and credits.

The state faces an estimated potential credit obligation of about $1 billion, including credits expected to be earned in the coming year and those deferred due to limited funding.

Walker has used his veto authority the last two years to limit funding for credits, citing concerns with cost and the lack of a plan to tackle the deficit, which has been exacerbated by low oil prices.

Senate Resources Committee chairwoman Cathy Giessel, an Anchorage Republican, has said that lawmakers have made strides in reducing credits but that Walker's vetoes had complicated matters by compounding costs.

The last decade has been marked by fights over oil taxes in Alaska and a struggle to find a balance between establishing a system that will entice companies to the North Slope and ensuring Alaskans receive a fair share for what's developed.

Credits have been seen as a way for the state to share in front-end costs in the hopes of reaping benefits once oil flows. The 2014 collapse in oil prices prompted another re-examination of the system.