Library presentation on oil tax leads to pointed exchange on quality of legislative review

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The Legislature relied on generalities in approving a multi-billion-dollar oil tax cut and never dug deep enough into the details, veteran Fairbanks oil industry researcher Richard Fineberg said in a presentation at the Noel Wien Library Monday [July 1].

“The legislative majorities pushed this controversial bill through on the fast track, speeding past major economic and administrative issues,” he said. “The majority placed undue reliance on vague, oversimplified and poorly sourced economic charts that distract from the basic information indicating that the tax cut may not be necessary.”

Fineberg spoke in favor of the petition drive for a vote on repeal of the oil tax reduction.

Fineberg gave a complex and statistic-heavy presentation in which he pointed to shortcomings in state audits, challenged the emphasis on government take percentages, mentioned a lack of solid economic data and misleading charts used by committees.

For example, he said the Legislature never examined the consistent record of profits in Alaska by ConocoPhillips, but instead received company presentations that highlighted per barrel earnings, percentages and other metrics that obscured the overall Alaska performance.

He compiled a chart that he refers to as “Hurricane Gulch,” which has one line showing worldwide ConocoPhillips profits over the years and another line tracking Alaska profits during the same period.

While the company suffered a $16 billion loss in 2008, creating the “gulch” in his graph, Alaska profits remained solid every year, producing a more-or-less straight line he compares to the Parks Highway bridge that crosses the divide.

During the question-and-answer period at the end of his talk, there was a pointed exchange between Fineberg and Rep. Tammie Wilson, who voted for the oil tax cut and defended the Legislature.

"To put the Legislature down that we didn't study this, that we didn't look at that, is just truly incorrect. We put many many hours, many different charts, many different meetings, most of which you saw out there," Wilson said.

Wilson did not respond to any of the specifics in Fineberg's presentation, but she said she thinks the Legislature had the right information.

“You can argue about which tax and whatever, but the fact is we are losing three to six percent down the pipeline every year. So if we do nothing, we know that’s going to happen. We can look at Texas, we can look at British Columbia, we can look at other countries and states who have changed their taxes and they are making the decline not as far down as we’re going and it’s starting to level out,” she said.

“You’re dealing with generalities,” Fineberg said in response.

He said the state has to recognize that with three companies controlling the trans-Alaska pipeline, the North Slope is not wide open for competition with independent firms.

“You’re telling me it’s a generality that we’re not losing barrels of oil going down every year?” Wilson said.

“I’m saying geology is a reality,” Fineberg said. “Prudhoe Bay was so big that it was five times larger than the second largest field in the United States, which was Kuparuk. Oil fields decline, that’s the nature of geology.”

He said that fields do level off, however, and there is more oil to be produced on the North Slope for many years.

“The first question is, can you tell me what we have in North Slope reserves? Can you give me a number?” Fineberg asked.

“No,” said Wilson.

“Why not?” Fineberg said.

“Because we’re still developing the North Slope. We’re drilling more wells, we’re finding more,” Wilson said.

“But we would know what we’ve got for reserves, that’s proven reserves. We knew we had 5 to 6 billion,” Fineberg said, adding that for the past couple of years the state has stopped publishing numbers on proven reserves, but the oil has not gone away.

“If we’ve got 6 billion we can still continue to produce in that declining area for a long time,” he said. “We use maybe right now two or three hundred million a year, so that’s 18 years, just roughly.”

At another point in the exchange, Wilson said the decline in oil flow is the most important issue.

“How far can we let that pipeline go dry before it freezes up during the winter and you can't get to it? That's really what the question is at this point. If we drop much further down than where we are right now and especially Fairbanks, which has about one week of heating oil, if that freezes up, that's what we have here folks. How far can you allow it to go before oil production is too low."

Contrary to that comment, the heating oil supply in Fairbanks is not relevant to the tax debate. Supplies of heating oil could be shipped to Fairbanks by truck or by rail car if necessary in short order.

Regarding trans-Alaska pipeline operations, the oil companies said last year that under the now-repealed oil tax, it would have been economic to run the pipeline until 2044. Other reports say that current proven reserves are enough to justify its operation for 40 or 50 more years.

In 2010, a study for BP concluded that by heating oil at 19 points along the trans-Alaska pipeline, it could operate down to 70,000 barrels a day, a much lower flow level than the lowest level studied by the Alyeska Pipeline Service Co.

Wilson said the oil tax cut lawmakers approved was “the correction that we were being told by the studies that we did, by more than one economist,” that will lead to more oil production.

"Here's the way it is. You have a whole bunch of people around a table, everybody around a table. Everybody brings their plans, people from different countries, different states. You bring it all there and which project gets picked? The project that gets picked is the one with the highest black line. If you're a good business person, you're going to pick the project that gives you the most money."

"So it's not saying that they're going to leave here, but they're going to pick those areas with the big profitability and we're trying to get into the game so that we stay in business."

At that point, another member of the audience, Jean Anderson, said "We can only get into the game Tammie if we've got the right figures and they're not giving us the right figures, as we've heard here."

Wilson said it was only Fineberg's claim that the right figures were not presented.

"Well that's what he said," Wilson said. "I think we did."

Fineberg was not persuaded by Wilson's contention that the Legislature did its homework.

"My simple question since you're dealing with what you've been told, I'm sorry, I'm going to have to ask you, how in heaven's name did nobody see the Hurricane Gulch chart if legislators were doing thorough research? Because this is what ConocoPhillips reports to the Securities and Exchange Commission, showing their consistent profitability, relatively, under the progressive tax. That's with the six percent decline that's been going for years."

"It seems to me the questions were not properly asked in order to be answered," he said.

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