



Most Read Calendar Obituaries e-Edition Real Estate Sponsored

More

**Alaska Dispatch News**  55°F

Anchorage




Featured Real Estate  SEE TODAY'S OPEN HOUSES

SECTIONS Search 


Commentary

## 7 ways Alaska could remove oil tax confusion and clarify revenue issues

Richard Fineberg | May 27, 2015


 Like 131  +1 0  

Alaska has struggled with difficulties grasping the complex realities of North Slope oil economics since 1977, when oil companies first pulled oil from the nation's largest onshore oil reservoir at Prudhoe Bay. Due to our extreme dependence on that revenue, state budget and petroleum revenue issues have been closely linked. These problems continue today. As legislators argue during the special session called by the governor to deal with reduced revenues due to plunging global oil prices, conflicts over oil data create clouds of confusion that obscure important facts about North Slope petroleum economics.



*Images\_of\_Money photo / cc via Flickr*

But instead of working to clarify fundamental information regarding this oil-dependent state's present and future condition, the state legislative majorities, deadlocked in disagreement with their minority counterparts, recently took time off. To safeguard the public interest, the Legislature should use this hiatus to seek clarity on chronic petroleum revenue issues that are essential to long-term state policy goals.

 [Excerpt from 2002 RCA decision, re: overcharges](#)

The current need to focus on seven specific aspects of North Slope petroleum economics, which will be listed below, is demonstrated by the following historical record of Trans-Alaska Pipeline System shipping charges (TAPS tariffs). During the first eight years of North Slope production excessive pipeline tariffs on the 800-mile pipeline pitted the handful of pipeline owners that were also major North Slope producers against smaller independent shippers, whose interests the state was supposed to protect. But in 1985 the state changed course on the tariff case, ending that dispute by adopting a complicated new tariff settlement methodology (TSM). Seventeen years later, a 2002 decision by the Regulatory Commission of Alaska (RCA) on 1997 tariffs determined that during the first two decades of North Slope operations under TSM the pipeline producer-owners had collected more than \$9.9 billion in pipeline tariff overcharges, adding to their oil profits from more than 90 percent of North Slope production.

Because transportation costs are subtracted from the price of oil to calculate state tax and royalty payments, the state was the biggest loser. But producer-owner overcharges also handicap independent North Slope producers, who must pay the three major North Slope competitors to transport their oil. The 2002 RCA decision ordered tariff cuts by independent shippers from 1997 forward, reducing them from \$6 to \$2 per barrel to level the competitive playing field. In subsequent years, findings against the owners were upheld by the Alaska Supreme Court, while the Federal Energy Regulatory Commission (FERC) followed suit on tariffs under federal jurisdiction.

jurisdiction.

Continuing to pursue their own economic interests in other state arenas, the major North Slope producers sometimes use questionable practices. For example, during the 2013 campaign to cut state petroleum payments by ditching the progressive ACES production tax, ConocoPhillips presented a chart on six occasions that gave the false impression that industry revenue decreased as oil prices increased from \$80 to \$130 per barrel. In the 2014 statewide petition to repeal the tax cut, the industry profited from confusion as the three major North Slope producers played a major role financing the continuing tax cut campaign, outspending their opponents by a ratio of more than 20 to 1. With that financing, the major companies inundated Alaska's airwaves with misleading data as they defeated the tax cut repeal by a significantly narrower margin.



In light of this background, these seven focus items would help reduce the plethora of confusing petroleum numbers:

1. Focus on industry profitability -- information essential to policy deliberations notably ignored by some esteemed state economic analysts.
2. Focus on conversion of fiscal year data to calendar year data to enable assessment of relationships between government revenues and industry profits, as well as trends in global costs, supply and demand.
3. Focus on total net revenues, without which percentages of government "take" and industry profits are meaningless, if

not misleading.

4. Focus on the degree of corporate consolidation of Alaska petroleum production facilities and operations to assure a competitive economic environment that will attract investors.
5. Focus on improving the state petroleum auditing program, utilizing the preceding guidelines to provide a clear economic framework that will also include additional profits from the final two elements.
6. Focus on field cost accounting to ensure that excessive field costs paid by independent producers do not undermine a competitive economic environment.
7. Focus on transportation accounting to assure correct attribution of regulated pipeline costs and profits to shippers and producer-owners.

Addressing these concerns will disperse clouds of confusion, thereby helping Alaskans apply past savings and future North Slope oil revenues to the state's fiscal needs.

**Richard A. Fineberg** is an independent analyst who lives in Ester. He covered Alaska North Slope development as a reporter during the 1970s, worked in the governor's office in the 1980s, serving as a senior advisor to the governor on oil and gas policy from 1987 to 1989, and testified as an expert witness in the Regulatory Commission of Alaska TAPS tariff case in 2001. Additional information and thoughts on North Slope economic and environmental issues may be found at his website, <http://www.finebergresearch.com>.

The views expressed here are the writer's own and are not necessarily endorsed by Alaska Dispatch News, which welcomes a broad range of viewpoints. To submit a piece for consideration, email [commentary\(at\)alaskadispatch.com](mailto:commentary(at)alaskadispatch.com).

**RELATED:**

[Alaska oil tax credits are working as they should at low prices](#)

[Dispute over oil tax credits plays out in shadow of Alaska's budget deadlock](#)



Like 131 +1 0



Alaska Dispatch News, May 27, 2015 (<http://www.adn.com/article/20150527/7-ways-alaska-could-remove-oil-tax-confusion-and-clarify-revenue-issues>) ---  
Hyperlink: "a 2002 decision by the Regulatory Commission of Alaska (RCA) on 1997 tariffs"

**RCA, Order No. 151 (Docket P-97-4), Nov. 27, 2002**

1		
2		<b>STATE OF ALASKA</b>
3		<b>THE REGULATORY COMMISSION OF ALASKA</b>
4	Before Commissioners:	G. Nanette Thompson, Chair
5		Bernie Smith
6		Patricia M. DeMarco
7		Will Abbott
8		James S. Strandberg
9	In the Matter of the Correct Calculation and Use of Acceptable Input Data To Calculate the 1997, 1998, 1999, 2000, 2001, and 2002 Tariff Rates for the Intrastate Transportation of Petroleum over the Trans Alaska Pipeline System Filed by AMERADA HESS PIPELINE CORPORATION; ARCO TRANSPORTATION ALASKA, INC.; BP PIPELINES (ALASKA) INC.; EXXON PIPELINE COMPANY; MOBIL ALASKA PIPELINE COMPANY; EXXONMOBIL PIPELINE COMPANY; PHILLIPS ALASKA PIPELINE CORPORATION; UNOCAL PIPELINE COMPANY; PHILLIPS TRANSPORTATION ALASKA, INC.; and WILLIAMS ALASKA PIPELINE COMPANY, L.L.C., and the Protest by TESORO ALASKA PETROLEUM COMPANY of the 1997 and 1999 Tariff Rates.	P-97-4 ORDER NO. 151
10		
11		
12		
13		
14		
15		
16	In the Matter of the Petition of TESORO ALASKA PETROLEUM COMPANY for an Investigation into the Amounts Collected by AMERADA HESS PIPELINE CORPORATION; ARCO TRANSPORTATION ALASKA, INC.; BP PIPELINES (ALASKA) INC.; EXXON PIPELINE COMPANY; MOBIL ALASKA PIPELINE COMPANY; PHILLIPS ALASKA PIPELINE CORPORATION; and UNOCAL PIPELINE COMPANY for Dismantling, Removal, and Restoration of the Trans Alaska Pipeline System	P-97-7 ORDER NO. 110
17		
18		
19		
20		
21		
22		
23		<b>ORDER REJECTING 1997, 1998, 1999 AND 2000 FILED TAPS RATES; SETTING JUST AND REASONABLE RATES; REQUIRING REFUNDS AND FILINGS; AND OUTLINING PHASE II ISSUES</b>
24		
25		
26	BY THE COMMISSION:	
		P-97-4(151)/P-97-7(110) – (11/27/02)

Regulatory Commission of Alaska  
701 West Eighth Avenue, Suite 300  
Anchorage, Alaska 99501  
(907) 276-6222; TTY (907) 276-4533

RCA, Order No. 151 (Docket P-97-4), Nov. 27, 2002

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26	<p style="text-align: center;"><u>B. Comparing From the Beginning of Pipeline Operation, the Annual Past Revenue Requirements of a DOC Methodology With the Annual Past Revenue Requirements of TSM, Demonstrates That the Year-end 1996 Rate Base of \$669 Million Is Reasonable</u></p> <p>We now compare the past annual DOC revenue requirements shown at Exhibit 33 with the past annual TSM revenue requirements. Exhibit 7, Schedule 2 reveals that TSM has, on a cumulative basis,<sup>547</sup> provided the Carriers with an opportunity to recover \$9.9 billion more than their costs as determined by the DOC revenue requirements.<sup>548</sup> In 1997 dollars, the net present value<sup>549</sup> of the cumulative stream of revenue requirement differences is \$13.5 billion, far in excess of the \$669 million year-end 1996 DOC rate base.</p> <p>Because the revenue requirements determined under TSM have been higher than costs as determined under a DOC methodology applied consistently from the beginning of pipeline operations, we find that the Carriers have had ample opportunity to recover costs and no taking of Carrier property occurs if we adopt a \$669</p> <hr/> <p><sup>547</sup>Our finding regarding the appropriateness of TSM depreciation and the year-end 1996 rate base is properly tested with reference to the Carriers' <i>cumulative</i> historical opportunity to recover their full costs of service. In <i>Re Amerada Hess Pipeline Corporation</i>, Order P-97-4(79), April 10, 2000, we directed the Carriers to show that 1997-2000 rates reflect costs. We found that evidence that rates are just and reasonable over the life of the line is not sufficient to prove that the rates for specific years are just and reasonable. <i>Id.</i>, at 11. The Carriers' "life of the line" argument requires, among other things, a projection of costs of service into the future. Moreover, it fails to address whether 1997-2000 costs are reflected in 1997-2000 filed rates. We evaluate <i>historical</i> costs; we do so to determine whether 1997-2000 rates reflect the costs of providing service for the years in question.</p> <p><sup>548</sup>Exhibit 7, Schedule 2, Line 1.</p> <p><sup>549</sup>Exhibit 7, Schedule 2, Line 2. The net present value calculation uses interest rates equal to the Commission's overall weighted rate of return in each year. See Exhibit 7, Schedule 1, Line 6. We note that the present value comparative revenue requirement analysis indexes 1997 dollars, because those are the dollars with which the remaining rate base is measured.</p> <p>P-97-4(151)/P-97-7(110) – (11/27/02) Page 131 of 168</p>
---	---

Regulatory Commission of Alaska  
701 West Eighth Avenue, Suite 300  
Anchorage, Alaska 99501  
(907) 276-6222; TTY (907) 276-4533

To: [Unidentified Parties]  
From: Fineberg@alaska.net  
Date: May 30, 2015  
Subj: ADN Posting with Hyperlink  
Att: ADN Posting with Hyperlink

Thank you for discussing my recent recommendations to improve state reporting on the North Slope petroleum economics. Due to the state's dependence on oil revenue, this subject is integrally related to state budget issues. To place these issues in proper perspective, I am sending you the attached commentary column, "7 ways Alaska could remove oil tax confusion and clarify revenue issues" (posted on-line by *Alaska Dispatch News* May 27; also on the editorial page of that publication's hard-copy edition May 28). I want you to see this version because it provides historical information that demonstrates that the state needs to implement the recommended reporting improvements on petroleum economics.

On May 24 the *Fairbanks Daily News-Miner* published the same recommendations. But it happens that in this version I devoted the supporting text to current events and therefore did not place these seven focus items in the context of the following significant historical facts. It was only in the submission to *Alaska Dispatch* that I discussed the fact that the major North Slope producers, who were also the major owners of the Trans-Alaska Pipeline (TAPS), overcharged pipeline shippers between 1977 and 1996 by more than \$9.9 billion, thereby reducing tax and royalty payments to Alaska and handicapping their competitors during the first two decades of North Slope production. The long delay in officially establishing these historical facts demonstrates the importance of improving state petroleum-related accounting reports to provide better public understanding of the state's petroleum economic framework.

I think it is important to share this background information with you for the following reasons: First, it is my view that the current budget impasse over how to deal with reduced oil revenues may be seen as the sequel to the August 2014 referendum, when public confusion over the basic facts of North Slope petroleum economics led to the abandonment of the ACES regime, under which both the state and the industry had flourished. In both seasons – and in all seasons -- the industry has profited and the public has lost from the clouds of confusion that obscure the realities of North Slope petroleum development. For additional background on these issues, please see the following web site links to three articles I recently posted:

- ["Aftermath of the SB 21 Referendum,"](#) April 8, 2015 (home page lede article, which includes reference and hyperlinks to the following two articles that contain important information):
- ["Public Revenue and Extraction Profits from Alaskan Oil: An Updated Case Study \(Coping with Bent Numbers Misleading Data \[Economic and Environmental Background with Occasional Footnotes\]\),"](#) March 25, 2015; and
- ["A Tale of Two Charts \(Revised\),"](#) October 24, 2014.

Looking forward, I believe that the extraordinary profitability of North Slope operations and the significance of the consolidation of that profitability in the hands of three major transnational corporations will only become clear when improved state reporting lifts the clouds of confusion that surround North Slope petroleum economics,. In sum, I believe that both history and current events indicate that we must improve our petroleum information systems in order to forge public policies that deal intelligently with the importance and the inherent uncertainty of future global impacts on North Slope petroleum development.

With thanks for your kind attention and hoping this information will prove useful, I am

Sincerely,

Richard A. Fineberg