Access 120421 at http://www.adn.com/2012/04/20/2433689/solid-info-critical-to-resolving.html

Solid info critical to resolving oil economics

COMPASS: Other points of view
By RICHARD FINEBERG
Published: April 20th, 2012 09:25 PM

As the legislative session grinds on in special session, it's good to recall a set of slides presented April 9 by a Senate Finance Committee consulting firm. The slides demonstrated that the complicated North Slope petroleum economics picture lacks clear and compelling information and remains critically out of focus.

Offered in response to questions about previous data, analysis and observations, five PFC Energy April 9 slides identified seven goals for evaluating four oil tax bills. Six goals dealt with how to split up cash from skyrocketing oil prices between governments and producers. Only one of the cited goals focused on how the state gathers the information and measures success.

Before inventing new ways to divvy up price spoils, we should concentrate on obtaining the information necessary to formulate truly wise petroleum policies. Consider the proposal to "reduce government take on new (and) incremental production." The aim -- to reward new production by major producers and new developers, from both new and existing fields -- may not work when three major companies control 95 percent of Alaska's North Slope oil and own a similar share of the Trans-Alaska Pipeline (TAPS).

State and federal regulatory agencies took decades to determine that the TAPS owners were overcharging shippers on their 800-mile pipeline, including themselves. In addition to reducing revenue payments to the state (because transportation costs are subtracted from the tax base), this practice also handicaps independent shippers (who pay shipping charges in cash, while the three major TAPS owners transfer the tariff from one pocket to another, keeping the profits).

TAPS is merely the most visible of three fundamental bottlenecks. Smaller producers reportedly complain that the major companies overcharge them for the use of North Slope facilities and infrastructure. At the other end of the pipeline, in 1998 an independent tanker company prevailed on a charge that the TAPS owners illegally kept the independent tanker out of Valdez.

The same bottlenecks appear to be inhibiting competition today.

Since North Slope production began in 1977, the state has litigated to obtain approximately $8.4 billion through petroleum settlements. In recent years, with rising oil prices litigation collections have accelerated, without fanfare.

The state auditing system, which is supposed to inform that litigation, collapsed several years ago under the weight of antiquated data gathering processes. Last year, the Legislature appropriated $35 million to set up an overdue computerized auditing system whose implementation is still several years out. Meanwhile, it is difficult to ascertain true costs and their effects from unaudited cost estimates, leaving policy formulation and litigation to function in a vacuum.

Although informed observers say the state petroleum fiscal regime is too complicated, one of the proposed incentives would replace the production tax with two separate taxes, each with different, complicated computation methods.

Meanwhile, another incentive proposal would reward producers for stopping North Slope production decline. But the rate of decline varies, from field to field and from year to year. Moreover, for "elephant" fields like Prudhoe and Kuparuk, the curve will flatten out and stabilize, albeit at low production levels. Can these effects be measured, do they really incentivize production, or will they simply assure continued litigation?

Details of problems like these are obscured from public view by the state's practice of allowing the industry to operate behind a veil of confidentiality. Instead of public disclosure, the Department of Revenue favors withholding information from the public, arguing that confidentiality "leads to cooperation ... fosters trust ... lends credibility ... (and) aids us in obtaining information without costly litigation."

The Senate Resources Committee proposed an inter-agency Petroleum Information Management System (PIMS) to help clear up some of these problems. But when the Finance Committee made the Revenue Department the lead agency for PIMS, that agency tried to refuse the responsibility, noting that its beleaguered staff was already swamped trying to catch up with auditing problems.

The Legislature needs to switch focus. Instead of trying to satisfy the governor's demands to appease the major producers, legislators should put first things first and require the administration to fix information and management procedures.

Richard Fineberg is an oil and gas analyst and researcher in Ester, near Fairbanks.