

Perspective on “Building a Sustainable Future: Conversations with Alaskans” (Introduction to Three Attachments)

**By Richard A. Fineberg
June 14, 2015**

Governor Bill Walker offered impressive food for thought and listened attentively at the three-day conference, “Building a Sustainable Future: Conversations with Alaskans,” convened in Fairbanks at the University of Alaska campus June 5 during the legislative stalemate over how to deal with reduced state revenues due to the sudden drop in oil prices that began last summer. But in my estimation the format and the content of the conference did not live up to the governor’s expectations. To provide additional perspective on this subject, I am attaching two documents I prepared on the conference, along with the text of the KUAC radio report that ran statewide on Monday, June 8 the day after the conference adjourned.

While I admire Governor Walker’s initiative and efforts to encourage Alaskans to work together on this issue, I felt it was necessary to share additional information with conference participants to call attention to critical economic issues that are often overlooked. For this reason, I prepared the following two-page message, “Three Cardinal Points and Seven Recommendations,” for distribution at the conference.

The three points of this message – (1) consolidated North Slope control over 90 percent of the nation’s largest oil field by three major oil companies, (2) who augment their profits from a similar percentage of the Trans-Alaska Pipeline System (TAPS) and (3) chronic arguments over budget numbers – underlie the seven recommendations I recently published (see the box above), which are aimed at improving state budget data and making it clear to the general public. At the introductory session June 5, Gunnar Knapp, the current director of ISER, who spoke for nearly an hour from a 44-slide presentation, never discussed the strong and steady profits earned by the three major North Slope producers. Nor did Knapp mention the other related subjects. Although participants were supposed to be considering revenue options, the conference sessions were primarily focused on balancing the state’s over-spending by cutting state spending, rather than generating additional revenue.

Perhaps this skewed focus resulted from the fact that increased taxes, like reduced Permanent Fund Dividend (PFD) payments, are a political third rail – an unpopular subject that politicians are afraid to touch. But Governor Walker noted in his concluding remarks that although he had been advised not to mention “the ‘T’ word,” or taxes, that word actually had two meanings: taxes, and truth. He also stressed the point that he was there to listen. In response to his office request for feedback, I submitted additional comments on this subject, a copy of which follows the introductory statement I prepared for other conference participants.

On June 8, the morning after the conference closed, KUAC radio reported that the conference focused on tools to “tweak various aspects of state spending,” while on the revenue side of the budget tax issues and North Slope oil profits were underplayed. The transcript of the KUAC report, which ran statewide that evening on the public news broadcast, “Alaska News Nightly,” is the final attachment to this commentary on the “Sustainable Future” conference.

In addition to these materials, at this web site home page you will find additional links to other relevant reports that are posted on this web site.

From the desk of

Richard A. Fineberg

P.O. Box 416, Ester, Alaska 99725

Phone: (907) 479-7778 • E-mail: fineberg@alaska.net • Web Site: <http://www.finebergresearch.com>

June 5, 2015
(Revised)

**To: Participants, Building a Sustainable Future
(Conversations with Alaskans)**

**Subj: Three Cardinal Points and Seven Recommendations
(Supported by Web Site Attachments)**

We enter this week-end dialogue due to this state of Alaska's extreme dependence on petroleum revenue. To establish a sustainable future, the following three points, although frequently overlooked, lay the groundwork for a series of seven recommendations, which will be shown on the following page, to improve our understanding of the economic framework in which we have been operating for nearly four decades:

- Since 1977 Prudhoe Bay, the nation's largest oil field, entered production in 1977, three major petroleum producers with global economic interests have controlled more than 90 percent of North Slope production, which has been the major source of state revenue for most of this period.
- Although transportation is normally thought of (and regulated) as an independent function, the three major producers have also owned and operated the Trans-Alaska Pipeline System (TAPS), an essential transportation link to market.
- Because petroleum economics is an inherently complicated subject and the state has failed to establish a clear and solidly grounded data base, arguments over numbers that are liable to be incorrect or taken out of context constantly plagues \policy considerations. The industry profits from this confusion.

The importance of these three points is highlighted by the following recent history: Since the cost-based and progressive ACES tax regime was established in 2007, ConocoPhillips averaged more than \$2 billion per year in North Slope profits, in contrast to that company's erratic global performance. This fact should have raised the question: Was a production tax cut necessary to assure continued production? But in 2013 the Legislature voted to replace the ACES regime, under which both the state and industry had flourished, with a reduced flat production tax, SB 21. When opponents challenged that action in a statewide referendum the following year, the industry outspent its opponents by more than twenty to one (20:1), inundating media airwaves with inaccurately phrased information to defeat the referendum by a much narrower 53-47 margin.

In light of these recent developments, I recently proposed the following seven recommendations, which 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.

These recommendations appeared in the *Fairbanks Daily News-Miner* (May 24) and *Alaska Dispatch* (May 27 on-line and May 28 in print). Supporting materials are also available on-line at <http://www.finebergresearch.com>. From the box near the top of the right-hand column of this web site home page, readers can access: (1) the recommendations, as they appeared in the press; (2) an extract of a 2002 TAPS tariff decision by the Regulatory Commission of Alaska (RCA) documenting two decades of tariff overcharges by the major producers, estimated by the RCA at \$9.9 billion between 1977 and 1996, a remarkable sum that demonstrates the need to implement these reforms; and (3) references to related reports that are also available at this web site.

Fineberg Response to Sustainable Future Conference Survey Monkey

From: Sustainable Future, GOV (Gov sponsored)
To: [Participants, "Building a Sustainable Future: Conversation with Alaskans"]
Date: Wednesday, June 10, 2015 [Revised. June 14, 2015]
Subj: Please share your feedback

Dear Fellow Alaskan,

Thank you for participating in "Building a Sustainable Future: Conversations with Alaskans" last weekend in Fairbanks. Your insight and feedback are invaluable as we work toward building prosperity for our state's future. Please complete the survey at the link below to tell us what you thought of the event, and to learn how you can help continue this important dialogue. . . .

Sincerely,

Office of Governor Bill Walker
Director of Constituent Relations
Capitol Building, Third Floor
Juneau, AK 99811

Fineberg Response

[Revised from June 11, 2015 response to Survey Monkey request]

1. Please rate the following presentations from "Building a Sustainable Future: Conversations with Alaskans"

[Five conference presentations were listed with instructions to check one of the following four "informative" ratings for each]]

Very Informative Informative Somewhat Informative Not Informative

Other

Because I consider context critical to evaluation of these presentations in terms of "Conversation with Alaskans," I do not think it would be appropriate to check any of the "Informative" levels above. Although Gunnar Knapp presented some useful information, since his presentation set the stage at the conference opener I was quite disappointed in his failure to mention industry profits or control by three producers, which I consider to be one of the most important subjects omitted from this conference (see items 3 and 5, below). -- RAF

2. What did you like about "Building a Sustainable Future: Conversations with Alaskans"?

I am grateful for this effort to bring the public into the policy dialogue on revenue and state spending, and I especially appreciate the spirit of cooperation under which Governor Walker brought us together. But I believe this conference, which turned out to be seriously flawed in both content and structure, omitted discussion of fundamental problems, which I will summarize briefly in the following sections and which I believe belong in the public policy dialogue. -- RAF

3. What would have made "Building a Sustainable Future: Conversations with Alaskans" better for you?

To make the "Conversations with Alaskans" better, I believe we must acknowledge the following subjects on which the conference failed to focus:

- control of the major source of state revenue – North Slope oil production -- by only three major transnational oil companies;
- overlapping control by the same three companies of the Trans-Alaska Pipeline System (TAPS), the major transportation link to market;
- extraordinarily strong and steady North Slope profitability, as indicated by data the North Slope's largest producer files annually with the federal Securities and Exchange Commission (SEC);
- state failure to establish a clear state economic data base, resulting in (a) argument over basic numbers that diverts attention from appropriate consideration of state fiscal policy issues and (b) lack of clear understanding of important components of these issues, resulting in failure to discuss the two control issues discussed above, as well as industry profitability; and
- specific steps that can be taken to improve understanding of economic data on North Slope oil production, understanding of which is central to formulation and implementation of policies central to the state's economic future. -- RAF

4. Overall, how would you rate “Building a Sustainable Future: Conversations with Alaskans”?

[4 Ratings Listed – check one of the four]

Excellent Very good **Mildly good** Not good at all

[Out of respect for Governor Walker’s effort to encourage public participation with reasonable conversation, despite the organizational and content flaws I checked “Mildly good.” -- RAF]

5. Is there anything you would like to share about “Building a Sustainable Future: Conversations with Alaskans” that you weren’t able to express during the event?

This conference emphasized the importance of balancing the state budget between revenues and spending, but this three-day event focused on budget cutting, while options to deal with the revenue side of the budget equation were not fully explored. I recognize that calling attention to the unique aspects of North Slope petroleum economics and important flaws in the Alaska petroleum revenue system (itemized in section 3 of this Survey Monkey response) might have distracted from the conference focus on the state’s history of over-spending. Nevertheless, these aspects of the state petroleum accounting system should have been addressed because the clarity resulting from improvements in this system could enable the state to identify significant sources of additional revenue from North Slope producers.

Moreover, the crisis mentality that prevailed at this conference left little room to consider the quality of the information provided by the major North Slope producers. In this regard, I never found it appropriate to bring up the misleading charts that a major producer presented to legislators six times during consideration of SB 21 in 2013, or the factually inaccurate advertising statement about production decline by a second major producer that appeared frequently the following year during the referendum debate. Additionally, this event’s focus on budget cutting left little room to recognize that due to past savings the state is not really at a fiscal cliff.

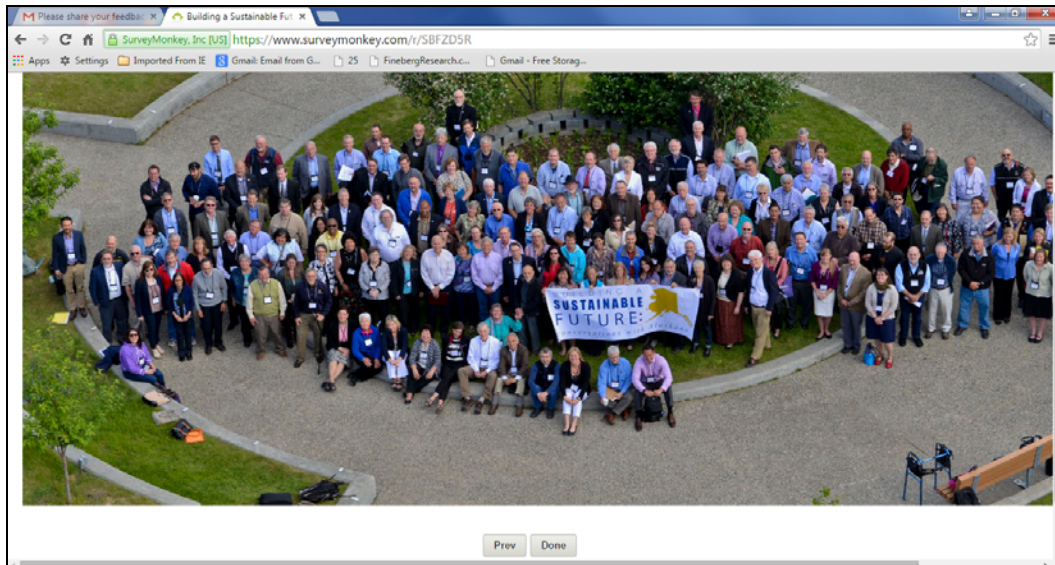
In sum, three factors -- the crisis mentality, the failure to explore revenue options and acceptance of industry misinformation -- all played into the hands of the major North Slope producers, who profit from the clouds of confusion that surround and obscure budget issues, as demonstrated by the outcome of the ACES/SB 21 debate. -- RAF

6. Please rate accommodations provided by the University of Alaska Fairbanks.

[4 categories listed: food, housing, space and staff support – check one of the four]

Excellent Good Acceptable Not good

[I checked all four as “excellent” or “good.” -- RAF]



Thank you for taking the survey

Internet Posting of Radio News Summary of the Governor’s Conference, “Building a Sustainable Future: conversations with Alaskans” (held at University of Alaska Fairbanks, June 5-7, 2015) *Summary of the conference, “Building a Sustainable Future: conversations with Alaskans” (held at University of Alaska Fairbanks, June 5-7, 2015), broadcast June 8, 2015 by KUAC radio (Fairbanks, Alaska), circa 7:30 AM and 8:30 AM and re-broadcast by KUAC on Alaska News Nightly (statewide), circa 6:00 PM.*

[Web posting accessed June 8, 2015 at <http://fm.kuac.org/post/governors-group-yields-predictable-results.>]

Governor’s Group Yields Predictable Results

Governor Bill Walker gathered Alaska leaders from around the state in Fairbanks over the weekend to talk about state services and how to pay for them. As KUAC’s Dan Bross reports, the event called: “Building a Sustainable Future: Conversations With Alaskans” resulted in some clear and predictable messages, but it’s uncertain when, or if they will result in legislative action.



Governor Bill Walker delivers closing comments at the end of the weekend gathering.

- Listen
2:05

[KUAC radio news broadcast transcribed on following page.]

Transcript of Radio News Summary of the Governor's Conference, "Building a Sustainable Future: conversations with Alaskans" (held at University of Alaska Fairbanks, June 5-7, 2015)

[Accessed June 8, 2015 at <http://fm.kuac.org/post/governors-group-yields-predictable-results>. Transcribed from original broadcast, June 8, 2015, by KUAC (Fairbanks), circa 7:30 AM and 8:30 AM and re-broadcast by KUAC on Alaska News Nightly (statewide), circa 6:00 PM.]

By Dan Bross (Reporter, KUAC [Fairbanks] radio)

Bross: "Governor Bill Walker gathered Alaska leaders from around the state in Fairbanks over the weekend to talk about state services and how to pay for them. Speaking for one of the many working groups who shared feedback at the end of the gathering, Joe Geldhoff of Juneau summed up the consensus of many participants charged with solving the state's revenue shortfall."

Joe Geldhoff: "It's going to require going into the Permanent Fund earnings. There's no way around it, it's going to require, probably, some sort of income tax."

Bross: "In closing remarks at the conference, Governor Bill Walker also referred to the "T" word."

Governor Walker: "There's actually two "T" words. One's the truth, we're going to tell the truth. And the other is taxes. There's going to be taxes. We're going to have to do something."

Bross: "There was abundant praise for Governor Walker taking on the budget issue in such a bold, public way. Independent oil industry analyst Richard Fineberg of Fairbanks said he appreciates the governor's efforts, but contends there was one key piece of information missing from the conversation:"

Richard Fineberg: "North Slope profitability and our failure to audit and get that data in a timely manner, or get it at all sometimes."

Bross: "Democratic State Representative David Guttenberg of Fairbanks agrees that oil tax issues were underplayed, adding there continues to be legislative resistance to all new revenue solutions."

Rep. David Guttenberg: "Some people just don't want to talk about oil taxes, or income tax, or revenue -- in any form, in any context, whether it's good or bad."

Sen. John Coghill [unidentified]: "The political question is: 'will you participate?' "

Bross: "Republican State Senator John Cognill of North Pole agrees new revenue isn't a hot topic among legislators, who remain focused on spending -- and credits Governor Walker for taking on political taboo like taxes and Permanent Fund earnings use."

Sen. John Coghill [continues]: "It's easier for the main leader of Alaska to go out and do that than it is for an individual legislator, who paints a big target on themselves and can't sustain 'em. The governor said he's gonna do it, he's doing it -- you know, good on him."

Bross: "Coghill, Guttenberg and others at the conference spoke well of a new, state on-line model that allows users to tweak various aspects of state spending and view the results. A tool they hope will make the budget situation more real to the public and spur action. Governor Walker plans to continue the budget conference in other locations around the state in coming months.

"In Fairbanks, I'm Dan Bross."
