


Alaskans should get fair share for oil

ADN COMPASS Editorial

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In 2008, Exxon rode staggering oil prices to the highest profits ever earned by any company in the history of the world -- for the second year in a row. Between 2006 and 2008 Conoco earned almost $7 billion in profits from its Alaska operations -- as much as it earned on all its Lower 48 operations combined.

Despite such healthy company profits, it looks like the 2010 legislative session may bring a call by oil industry members and some legislators to reduce the share Alaskans receive for our oil from such companies as Exxon, British Petroleum and Conoco.

Last month, 15 members of the State House's Republican-led majority wrote the governor calling for a review of whether we should rewrite our 2007 oil tax reform law (known as ACES) and roll back the oil revenue the state receives for our resources. If that debate proceeds, it's important for Alaskans to understand some of the generous investment incentives in Alaska's current law, which have spurred new North Slope development, but are rarely mentioned by those seeking tax breaks.

Any discussion on oil policy should start with the counsel of former Gov. Jay Hammond. Hammond joined our early calls for oil tax reform in 2004, when Alaska had a broken tax law riddled with loopholes. Then, most fields were fully exempted from Alaska's oil production tax, no matter how much profit they generated. Hammond reminded us that under the Alaska Constitution, oil on state lands belongs to all Alaskans. And it requires us to "develop" our oil resource for "the maximum benefit of (our) people."

With the passage of a landmark oil tax reform law in 2007, we believe Alaskans finally honored his advice. The 2007 law wisely provides that as oil prices rise and create greater oil company profits, Alaska's share of this oil rises too. In fairness to industry, the tax rate falls as prices fall.

And ACES provides generous development incentives. At current oil prices, companies can write off over 50 percent of their capital costs for exploration and development. By finally retaining Alaska's fair share, we've been able to generate needed revenue to protect our future, growing Alaska's savings accounts to nearly $9 billion.

So, what about industry claims that Alaska's law isn't fair?

Well, these claims always sidestep Alaska's generous "royalty relief" law, which is actually great for business.

Under royalty relief, a producer is entitled to a waiver of Alaska's 12.5 percent royalty whenever production "would not otherwise be economically feasible." The law values the truth over public relations. Oil companies get tax reductions if they demonstrate, rather than just claim, they need a tax reduction to make a project profitable. Since the passage of ACES, this provision has incentivized North Slope developments at Ooogaruk, and at Nikiachuk, which is nearing production.

It's telling that companies rarely seek royalty relief -- less than half a dozen times in the past decade. They'd line up for this break if paying less money to the state would really turn unprofitable fields profitable. But the truth is that field geology and world economics have more to do with investment decisions than Alaska's tax rules.

And what about claims that ACES is stifling investment? In 2006, before our reform law took effect, North

Slope investment sat at $3.9 billion. By 2008, with ACES, it had risen to $4.9 billion. Investment will continue to be influenced by the shifting economic conditions. But it will be stalled if legislators keep telling companies to wait for new tax law changes.

As Prudhoe Bay and Kuparuk continue to decline, we face challenges. We do need to look for ways to increase production. Advances in technology are increasing the viscous "heavy oil" we can produce from these fields. And, we need to come together on a gas pipeline. Economies of scale will allow us to produce oil from new fields that we'll also be developing for gas production.

Looking for solutions is always smart. But granting oil companies more profit, at the expense of Alaska's ownership share in our oil, isn't likely the solution we need.