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# Critiquing a flawed oil analysis

**Richard Fineberg** *[Sunday, January 15, 2017]*

**News-Miner Community Perspective:**

Opinionated reports that Ms. Kara Moriarty, President of the Alaska Oil and Gas Association, prepared for the News-Miner on Oct. 22, 2016, demonstrated numerous mistakes, as well as significant omissions of information highly relevant to petroleum development.

Based on an overview perspective, it becomes clear that her articles failed to provide readers with facts about Alaskan economics and politics that included:

• basic data on bottom-line revenues;

• extreme consolidation of the three major North slope producers (currently British Petroleum, ConocoPhillips and ExxonMobil);

• dubious conduct of these major producers, as demonstrated by their annual pipeline tariff overcharges and repeated distribution of misinformation;

• shortcomings in state governance.

Because of Ms. Moriarty's position, it is no surprise that her Community Perspective article reflected a pro-industry bias. But it is surprising that although her essay, headlined "Setting facts straight on oil rhetoric," appeared to be eloquent and well informed, content analysis reveals that her article contained significant flaws in each of her paragraphs.

For example, Ms. Moriarty's first so-called statement of fact in the Oct. 22 article — in which she stated, "Low oil prices are responsible for Alaska's budget shortfall, not the tax policy" — was erroneous for the following reason: The former progressive tax revenue provision, known as "ACES," greatly reduced the state budget revenue shortfall when prices were low by increasing industry tax payments to the state when oil prices were high. When viewing annual data under ACES in multi-year perspective, it was clear that even though the data on the profitability of ConocoPhillips indicated the progressive ACES tax regime had enabled the major producers to maintain strong profits at high prices while assisting the state, the 2013 policy change replaced the progressive ACES tax provision with the industry-supported flat tax cut. This recent policy change significantly increased industry profits at high prices, while reducing the state's future ability to continue financing of public services when global oil prices dropped. Review of this recent historical development therefore demonstrates that tax policy has important fiscal consequences.

Because of the complexity of petroleum development issues, careful analysis is necessary to provide a balanced overview of the current situation. In this regard, it should also be noted that Ms. Moriarty failed to recognize the importance of multi-year analysis and instead relied on annual data to frame her over-simplified and narrowly focused approach, which failed to recognize the socio-economic aspects of Alaska petroleum development. Significantly, she did not point out the fact that Alaska's North Slope petroleum development has been unusually concentrated in the hands of just three major oil companies that have maintained control of more than 90 percent of state oil production since the discovery of the nation's largest oil field nearly half a century ago at Prudhoe Bay. This consolidation of North Slope oil development — currently dominated by the three major producers — stands in marked contrast to oil production structures in the Lower-48, where North Dakota's recent production list shows that in that state it would take approximately 20 companies, not just three, to reach that percentage of total production. Taking advantage of this unusual consolidation in Alaska, the three major producers also own a similar share of the Trans-Alaska Pipeline System (TAPS), which is a key market link for all North Slope producers, including their competitors.

In continuing this analysis, the following aspects of industry taxation, also overlooked by Ms. Moriarty, are noteworthy:

1. The state requires steady funding to fulfill its public service responsibilities, while the oil industry invests in an uncertain future with risks that ACES progressive regime clearly addressed.

2. The unusually consolidated structure on the North Slope has enabled producers to increase their profits at the expense of their competitors and the state through pipeline tariff overcharges. The chronic TAPS overcharges, also unmentioned in Ms. Moriarty's article, constituted a display of dubious company conduct that prevailed during Alaska's petroleum development. But this wasn't the only questionable performance by the major North Slope producers.

3. An important aspect of questionable industry conduct, also unmentioned by Ms. Moriarty, was demonstrated by the distribution of misinformation by major North Slope producers in 2013 and 2014.

With regard to misleading information distributed by a major North Slope producing company, one example stands out. During the industry's legislative tax cut campaign in 2013, ConocoPhillips repeatedly distributed a flawed and misleading chart. This erroneous document featured a diminishing green swath labeled "ACES Marginal Industry Share." On this chart, the term was left undefined, specific data was not presented and the bars were displayed as equal in height, with state portion increasing as prices rose, due to what ConocoPhillips called the "progressivity effect." This chart therefore created the exaggerated, false impression that ConocoPhillips profits under ACES significantly declined at state expense as current oil prices increased from $80 to $130 per barrel. In fact, because the undefined term "marginal" represented additional (not total) revenue, the opposite was the case. Nevertheless, ConocoPhillips included this misleading chart with its suite of slides on six separate legislative presentations during the campaign to reduce the state's progressive oil tax.

While the repeated distribution of the ConocoPhillips chart in 2013 was not the primary focus of the industry's tax cut quest, it should be noted that during the two-year campaign, this was not the only source of confusion. In 2014, multiple distributions of this misleading chart were followed by an erroneous television advertisement on earlier North Slope production history that was repeatedly run by BP, one of the three major partners in the consolidated North Slope. These successive examples of misleading information suggest that the major North Slope producers may have been deliberately confusing the public, a charge of which Ms. Moriarty is not necessarily guilty.

But based on decades in which I have been observing Alaska petroleum development, I have also found that the first ten paragraphs of Ms. Moriarty's Oct. 22, 2016, Community Perspective all contained errors that undermined the arguments of her 11th and final paragraph, in which she argued against increased taxation. For example, three of her so-called statements of fact — each numbered for emphasis — consisted of one incorrect statement and two highly questionable opinions. Of the seven remaining paragraphs that led to her conclusion, each contained one (and sometimes more) of flaws that included incorrect statements, omissions of important facts, over-simplification and the failure to distinguish facts from opinions.

In light of this review, I have concluded we should reject Ms. Moriarty's opinionated essays. While her mistaken conclusions may indicate that she is a victim of corporate misinformation, my analysis demonstrates that because many of her arguments on oil industry economics were based on incorrect statements and omissions, her text frequently jumped to erroneous conclusions that distracted attention from the adverse effects of the Alaska oil industry's successful tax cut campaign. For this reason, I found it useful to produce a more detailed analysis in order to provide the public with better information. That Dec. 14 review, based on my analysis of her faulty article, can be accessed on my website, www.finebergresearch.com/.

It is ironic to note Ms. Moriarty had borrowed a phrase from the past writing of Daniel Patrick Moynihan, a famous senator and sociologist, to criticize those with whom she disagreed. Moynihan had taught the American public many years ago to distinguish facts from opinions with the statement, “Everyone is entitled to his own opinion, but not his own facts.”

Moynihan was referring to public understanding in general terms, and Ms. Moriarty failed to make clear why she applied this statement to her critics, instead of looking in the mirror.

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