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Web posted November 4, 2007

Oil costs dwarfed by profits

Tax bill spurs some lawmakers to ask just how much money companies are making

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JUNEAU EMPIRE

Oil company officials have spent hours testifying before legislative committees about the difficulty of working in the harsh Arctic environment.

But an Empire analysis of publicly available data for the state's oil producers shows that Alaska is notable for something besides high costs: huge profits.

The reason is Prudhoe Bay, the nation's largest oil field. Even though the field's heyday is long past, the 340,000 barrels a day it pumped in 2006 meant it was still the nation's top producing oil field. At its peak, Prudhoe Bay pumped 1.6 million barrels a day.

"People can't believe how valuable Prudhoe is, even on the decline," said Rep. Beth Kerttula, D-Juneau, formerly an oil and gas attorney with the state Department of Law.

That quantity of oil means massive revenues for the companies with production there. In 2006 ConocoPhillips reported revenues of \$6.3 billion in Alaska, while BP reported \$6 billion. Alaska's third major producer, Exxon Mobil, provides little data on its Alaska operations.

Sen. Gene Therriault, R-North Pole, said the amount of money the companies have acknowledged making contradicts producer statements about the investment climate in Alaska.

"It strikes at the credibility of their statements that the state of Alaska is not a competitive place to invest their corporate capital because they will not get an adequate rate of return," he said.

Oil company executives say the distance from markets, the need to construct ice roads and the battle against bitter winter weather all cut into profits.

"Alaska is a high-cost environment," said Craig Haymes, Alaska vice president for Exxon Mobil Corp., owner of the largest share of the big Prudhoe Bay oil field.

Representatives of ConocoPhillips Co. and BP have made similar, if not identical comments.

Several state legislators, including Senate Judiciary Committee Chairman Hollis French, D-Anchorage, and House Resources Committee Co-Chairman Carl Gatto, R-Palmer, have unsuccessfully tried to press the companies for cost and profit information specifically for Alaska.

They've found those who produce oil in Alaska don't like to talk about their profits in the state, and in some cases won't say anything.

"We should know what profits they are making so we can tell what the state's fair share is," said Sen. Tom Wagoner, R-Kenai.

The Empire's analysis suggested that revenues in Alaska dwarf costs. The numbers are not precise, and



Michael Penn / Juneau Empire

► Ongoing discussion: Sen. Hollis French, D-Anchorage, talks Friday with Rep. Lesil McGuire, R-Anchorage, and Sen. Charlie Huggins, R-Wasilla, about the oil tax bill at the Capitol.

the companies have resisted providing more detailed data.

The analysis of the companies' financial data shows profit margins in Alaska to be higher than their margins elsewhere, or in most other publicly traded companies.

ConocoPhillips, the state's largest producer, showed Alaska pre-tax profits of \$4.6 billion and BP at \$4.1 billion. Exxon refuses to release its Alaska profits.

For Conoco, that's a pre-tax profit margin of nearly 73 percent; for BP it is 68 percent.

Sen. Hollis French, D-Anchorage, called the oil company profits "eye popping."

BP Alaska Vice President Claire Fitzpatrick said the numbers are not precise because the corporate entity called BP Exploration (Alaska) contains some other small operations, such as BP's facilities in Australia.

"Somehow, corporately a small portion of other operations wound up with Alaska," said Daren Beaudou, BP Alaska spokesman.

That has only a minimal impact on the Alaska results, however, he said. "It doesn't greatly affect or impact the numbers."

Fitzpatrick acknowledged that BP reported higher profit margins in Alaska than for BP as a whole, but said that was because the total company's returns include low-margin businesses such as service stations in Spain, and new businesses, such as those in solar and renewable energy.

A direct comparison of Alaska operations and similar operations elsewhere would show Alaska's high costs, she said.

"A number of other regions are actually more profitable under that particular metric," she said.

French had already had an inkling of the kind of profits available in Alaska. Palin administration consultants Gaffney, Cline and Associates have done modeling of the state's big "legacy" fields such as Prudhoe Bay and Kuparuk. Even under the proposed tax increases of Palin's Alaska's Clear and Equitable Share proposal the profits are still "phenomenal," he said.

The question of how much Alaska's oil is worth is being increasingly sought by legislators such as Wagoner. When Exxon's Haymes appeared before the Senate Resources Committee, Sen. Bill Wielechowski, D-Anchorage, tried to find out what the company made in Alaska.

"We don't break that out," Haymes replied, in some variation, to five different questions.

"Let's move on," said Chairman Sen. Charlie Huggins, R-Wasilla, typically an oil industry ally, cutting off the line of questioning.

Wielechowski and Wagoner walked out of the meeting. Wagoner said later he was "dumbfounded" that Exxon's representatives would ask for a tax break and not present information to show why they need it.

"The corporation does not report earnings on a state-by-state basis," said Margaret Ross, Exxon spokeswoman at the company's Houston corporate headquarters.

Rep. Les Gara, D-Anchorage, who has battled Exxon since he was a young state attorney suing Exxon after the Exxon Valdez spill, said he wasn't surprised Exxon refused to provide that information.

ConocoPhillips and BP probably wish they weren't required to release their Alaska results under Securities and Exchange Commission rules, he said.

"They get a lot of grief for it, because their Alaska profits are staggering. It undermines their case when they ask for tax breaks," Gara said.

The lack of information available to the citizens and Legislature shows the need for more information, Sen. Therriault said.

"That's one of the things the governor is trying to get with ACES, more information being given to the state on a timely basis, and the ability to share some of that information with the individual citizens of the state," Therriault said.

Commissioner of Revenue Pat Galvin, the Palin administration's advocate for the ACES plan, has testified before numerous legislative committees. Several legislators say they do not recall either Galvin or other administration staff saying what industry's total profits are. Galvin did not respond to several interview requests.

Sen. French said he wanted to go further. French said his Judiciary Committee wants to amend ACES to require each company make public their revenues and expenses in Alaska.

"It seemed like blinding common sense, that under a net profits system the public should know what the net profits were," he said.

House Resources Committee Co-Chairman Rep. Craig Johnson, R-Anchorage, has expressed concern

Alaska major oil producers '06 financial data

ConocoPhillips BP
Exxon Mobil

Total Revenues:
\$6.3 billion \$6.0 billion Not provided

Pre-tax profits:
\$3.7 billion \$3.4 billion Not provided

Net income : \$2.3 billion \$2.2 billion Not provided

Average barrels per day 263,000 224,000 127,000

Source: SEC filings, company statements, Empire calculations.

that requiring more information, or making more information public, would make Alaska a less attractive place to do business.

"I think it is incumbent on us to provide a good environment for business," he said.

Two legislators, Gara and Wielechowski, have sent a letter to the local presidents of BP and ConocoPhillips, asking how much money they make in Alaska.

BP's Beaudou said the company was still drafting its response, but that its numbers would be different than the Empire's calculations and include taxes. In BP's 2006 annual report it reported profits of \$2.2 billion, while Conoco reported \$2.3 billion.

When publicly traded companies report their financial results to Wall Street, they subtract taxes to get the financial results that investors care about.

BP last year paid \$2.7 billion in total taxes on its Alaska operations, Beaudou said. \$1.7 billion of them went to Alaska, ranging from property tax, royalty, corporate income tax and the production tax. Beaudou counted royalties, the state's one-eighth share of the oil, as a tax.

Alaska's oil production taxes are taken before income taxes are calculated, meaning an increase in the Petroleum Profits Tax collections would lower state and federal corporate income tax collections, Therriault said.

"Alaska's take is from the federal income tax," he said. "For every additional 100 dollars, 33 of them come from the federal treasury, not the company."

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