Report presents major policy decision

JUNEAU – The philosophy suggested in Dr. Michael Tanzer's report to the state legislature on the profitability and taxation potential of Prudhoe Bay oil presents a major policy decision for Alaska.

"Alaskans must choose whether they want a steady, continuing pace of development, and projects like the natural gas pipeline, or whether they want to wind down the state's private economy to that of the late 1960's, before Prudhoe Bay," Frank Rickwood, president of BP Alaska said in a letter to Rep. Steve Cowper released recently.

The letter complying with a request from Rep. Cowper for comments on the Tanzer report, said that despite the odds that finding a field as big as Prudhoe were about one in 50,000, the oil companies went ahead, did the exploration and bid for land at public sales when the prospects were regarded as poor.

"But the discovery at Prudhoe in July 1968 changed all that. The lease sale in September 1969 . . . was an enormous success for the state but a disaster for the oil companies," said Rickwood who pointed out that many newcomers were bidding.

"Most of the participants bought nothing with their share of the $900 million in bonus monies."

Prudhoe Bay is the "largest oil field to be discovered on the North American continent and it was found as a result of the difficult and expensive exploration by oil companies who were sufficiently adventurous to invest in such a remote and hostile physical environment."

In a reference to Dr. Tanzer's points about "windfall profits," which he contends accrues to the oil companies through the rise in oil prices, Rickwood said that because of rising costs "the DCF (discounted cash flow) return may well have changed little or even deteriorated" as a result of price increases.

The 35% DCF rate of return which had been projected by Dr. Tanzer "would be reduced to approximately half that value when his model is modified to include all the capital expenditures" to get the oil to market.

"I think that if we were starting over, it is doubtful we would commit ourselves with an anticipated rate of return in that order of magnitude," Rickwood said.

"Of increasing importance in these days of dwindling resources is the need to seek a rate of return sufficient to allow for future replacement facilities. Alaska and the North Sea are good examples of how the cost of finding and producing oil today far exceeds what it was only a decade ago.

"Such activities were financed out of past earnings. In the future even more expensive energy projects in Alaska will need to be financed from the income of today's exploration and production activities. It must be recognized," Rickwood added, "that exploration is the most risky element in the oil and gas development process."