SARAH TAKES ON BIG OIL

EXCERPT

Chapter 1

Sarah raises her sword

"Gov. Murkowski is known as someone who keeps his cards close to his chest. This is fine in poker when you gamble your own money, but … he's gambling public assets and … claiming to have won the game while refusing to put all the cards on the table to prove it."

—gubernatorial candidate Sarah Palin, April 25, 2006

By Kay Cashman

The title of this book, "Sarah takes on Big Oil," is somewhat of a misnomer. As governor of Alaska, Sarah Palin's battle has primarily been with the state's three largest oil producers, BP, ConocoPhillips and ExxonMobil, and their supporters in the state's business community.

Most of the other oil and gas companies have liked Palin's requirements for state support of a North Slope natural gas pipeline, although none of them were happy with the production tax hike she initiated in late 2007.

But the tax fight wasn't a fight Sarah Palin started, even though, as governor, she had to finish it.

Alaska Gov. Frank Murkowski, 2002-2006

Alaska Gov. Sarah Palin, 2006-?

The battle began on Feb. 21, 2006, when her predecessor, Republican Gov. Frank Murkowski, introduced legislation that would overhaul the state's oil and gas production tax.

The Production Profits Tax bill, which needed the approval of the Alaska State Legislature, was the product of the Murkowski administration's negotiations with BP, ConocoPhillips and ExxonMobil for a gas pipeline fiscal contract.

The governor's goal was to get Alaska's "Big 3" oil companies to build a 1,715-mile gas pipeline that would run south from the North Slope to Alberta, Canada, where an existing pipeline system would take Alaska's gas to Lower 48 markets. (The three producers already controlled—by virtue of majority ownership—the 800-mile trans-Alaska oil pipeline that carried all of the North Slope's oil to market via the Port of Valdez in Southcentral Alaska.)

The fiscal contract negotiated by the Murkowski administration wouldn't compel the three North Slope producers to build a gas line, but it would require them to proceed with "diligence," which was defined as "prudent under the circumstances," to determine whether the project was commercial by their internal standards. In other words, there were no firm requirements to do anything.

When asked whether he thought the producers would move forward and build a gas line, Murkowski essentially said he trusted them to do just that with the incentives he had offered them in the contract. (By February 2006, the three North Slope producers had invested at least $125 million in studies related to a North Slope gas pipeline project.)

But Sarah Palin, who was challenging Murkowski for governor in the 2006 election, disagreed with his tactics.

"We've got to play hardball with these guys," she said in an editorial in her hometown newspaper, the Mat-Su Valley Frontiersman. "They are looking out for their bottom line, and we need a governor who will do the same thing for Alaska."

No tax hikes for 45 years... Chapter 1 has a total of 21 pages.

EXCERPT

Chapter 2

Sarah and the Magnificent 7

"Somehow, the governor and industry think (a 45-year freeze on oil and gas taxes) … is perfectly reasonable. Yet no one would suggest with a straight face that industry freeze gas and oil prices for decades."

—Mat-Su Valley Frontiersman, Sarah Palin's hometown newspaper, spring, 2006 gubernatorial campaign

By Kay Cashman

By far, the biggest issue overshadowing the tax debate in 2006 was the secrecy surrounding the gas line fiscal contract that the Murkowski administration had negotiated with the Big 3 producers, BP, ConocoPhillips and ExxonMobil.

Sarah Palin

The governor wanted the Alaska Legislature to pass his new Production Profits Tax, or PPT, before the end of the legislative session at midnight on May 9, without seeing the fiscal contract, even though Gov. Frank Murkowski said PPT was an integral part of the deal he had struck with the three North Slope producers. (PPT would tax oil company profits at a rate of 20 percent while granting a 20 percent tax credit on reinvestment.)

It irked many legislators, as well as gubernatorial candidate Sarah Palin, that the governor would not release the contract until the Legislature passed his tax bill.

The Stranded Gas Development Act, under which the fiscal contract had been negotiated, provided for a private dialogue between the governor's office and companies interested in building a pipeline, but the secrecy was wearing thin with Alaskans and their lawmakers, especially since the governor had said the contract gave the producers a 45-year guarantee on all their state and local tax and royalty rates...

Chapter 2 has a total of 26 pages.

More excerpts on next page

Chapter 3

EXCERPT

Sarah Palin: "Take a stand"

In 2006, when she was running to unseat then-Gov. Murkowski in the Republican primary, Sarah Palin got a call from Ben Stevens, then president of the Republican-run Alaska Senate and son of U.S. Sen. Ted Stevens, R-Alaska. "He told me, 'You're not just running against Murkowski. You're running against me, my dad, the whole state Republican party.'"

—Gov. Sarah Palin told the Wall Street Journal in September 2008

By Kay Cashman

With the cloud of corruption surrounding the new production tax system and the failed gas line contract, public sentiment toward the oil industry in Alaska took a huge hit in 2006.

In some ways the year was worse than 1989, when the Exxon Valdez tanker grounded on Bligh Reef in Prince William Sound and spilled nearly 11 million gallons of oil across the sound, into the Gulf of Alaska to Kodiak Island and beyond.

That disaster did many things, including kill some 250,000 seabirds, 2,800 sea otters and 300 harbor seals. It also damaged the reputation of Alaska's oil and gas industry outside the state, ending any chance of opening the 1002 area of the Arctic National Wildlife Refuge to oil and gas exploration.

But it didn't put a reformer with the backbone and conviction of Sarah Palin in the governor's mansion. In fact, 10 years after the Exxon Valdez spill a Dittman Research poll showed 95 percent of Alaskans believed that oil and gas development had been good, or very good, for the state.

It took the fiscal contract negotiated by the Murkowski administration with BP, ConocoPhillips and ExxonMobil, and the new petroleum production tax, or PPT, for Alaskans to choose a maverick Republican with no statewide office experience over an incumbent Republican governor who had served the state for 22 years in the U.S. Senate.

Companies asked for too much... Chapter 3 has a total of 16 pages.

More excerpts on next page

Snippets from other chapters:

Oil tanker receiving terminal at Port of Valdez in Southcentral Alaska. The 800-mile trans-Alaska oil pipeline starts at Prudhoe Bay on the North Slope and terminates here.

"Let me help you out if you're looking for skeletons in my closet. I got a D in a macro-econ course 24 years ago in college (and) hollered at the wrong kid this morning for not taking out the garbage."

—Sarah Palin, The Associated Press, August 2006, during Alaska gubernatorial campaign

Sarah Palin and Judy Patrick baking cookies.

"With Frank Murkowski and Ben Stevens in charge, it's like the Night of the Living Dead.

We're being guided by two people whose political careers are over."

—Sen. Hollis French, D-Anchorage, Petroleum News, Aug. 27, 2006, after incumbent Gov. Frank Murkowski lost to Sarah Palin in the Republican primary, and after Alaska Senate President Ben Stevens' office was searched by the FBI as part of an ongoing investigation into political corruption in Alaska.

"In my personal belief, we have gone from being in front of the curve to being in back of the curve…."

—Joe Marushack, vice president of gas development for ConocoPhillips Alaska, told the Alaska Legislature's Senate Resources Committee early in February 2007, after Sarah Palin became governor and scrapped the fiscal contract ConocoPhillips, BP and ExxonMobil had negotiated with the previous governor.

"... Your leadership and that of your administration has been outstanding and your integrity and transparent style are a breath of fresh air in what has proven to be a rather shady and smoke-filled past in regard to energy issues in Alaska."

—David Sokol, chairman and CEO of MidAmerican Holdings Co. (a Warren Buffet company), to Gov. Sarah Palin, related to her work on a pipeline to carry North Slope gas to market.


Tom Irwin

"I thought the oil fairy would save us again … but what we are finding is that it isn't."

—Sen. Gary Wilken, R-Fairbanks.

"When we put the Point Thomson unit in default I got an email that said, 'Go to hell but please resign first.'"

—Tom Irwin, commissioner of the Department of Natural Resources

Selling Alaska's oil for "peanuts"

State Rep. Eric Croft, D-Anchorage, attended Gov. Frank Murkowski's Feb. 21, 2006 news conference.


Jim Clark

According to the Anchorage Daily News report, after the conference ended Croft "hotly debated (Jim) Clark about Murkowski's oil tax plan. The two were face-to-reddening-face, like a baseball manager with an umpire."


Rep. Eric Croft

Croft, who was running for governor, "took Clark to task over the need for confidential negotiations and the level of the proposed oil tax," the newspaper reported.

"I think it's a sad day," Croft told the Associated Press. "One hundred thirty-nine years ago Russia sold Alaska for peanuts, and we just sold Alaska's oil for peanuts. I think we're going to get a gut check on this Legislature and finally find out who owns this state."

(Later in the book the authors tell readers that in March 2008 Jim Clark, chief of staff to former Alaska Gov. Frank Murkowski, was indicted by the U.S. Justice Department, and pled guilty to soliciting and accepting nearly $70,000 in illegal polling and consulting expenses for Murkowski's re-election campaign in 2006 from oilfield service company VECO, in exchange for advocating for oil tax and gas pipeline legislation the same year. Clark was head of Murkowski's gas line team.)

Get production back up

James Gilbert, president of Alaska-based Udelhoven Oilfield Systems Service, summed up the concerns of many of the contractors in a Nov. 14, 2007 Anchorage Daily News guest editorial.


James Gilbert

"We should not be considering raising taxes. We should be considering what it will take to get (oil) production back up to 2 million barrels per day," Gilbert wrote, noting his company provided 538 jobs in Alaska.

If the Legislature passed Palin's production tax plan it would prove that Alaska was "an unstable place to operate and invest," Gilbert said.

Working with Palin: Dan Seamount

Dan Seamount, one of two commissioners who served with Sarah Palin in 2003 and early 2004 on the Alaska Oil and Gas Conservation Commission, had the following to say about Palin.

"She's pro-development, not pro-industry. She'll tell you, 'My boss is the people of Alaska.'

"She's smart, a quick study. Her adversaries biggest mistake is underestimating her intelligence, her understanding of issues. And she uses their arrogance against them."

For information on what happened between commissioners Sarah Palin and Randy Ruedrich at AOGCC, read "Palin explains her actions in Ruedrich case," written by Richard Mauer, Anchorage Daily News, Sept. 19, 2004, and available online at http://dwb.adn.com/front/story/5572779p-5504444c.html

Dan Seamount

DOUG SUTTLES

Taxes under the current production profits tax, or PPT, were "considerably more than our profits" in 2006, BP Exploration (Alaska) President Doug Suttles said. BP's taxes to the state and federal governments on its Alaska assets totaled more than $2.7 billion for 2006. If ACES (Palin's tax bill) was passed as written, he said, it would be a 400 percent tax increase in a two-year period for oil and gas companies doing business in the state.

....

The possibility of negatively impacting oil and gas investment in Alaska worried House Speaker John Harris, R-Valdez, who voted for the (new tax) bill: "The governor and her administration have crafted a bill and pushed it through the Legislature that will either tap the producers for another $1.5 billion without harm, or end up hurting our economy by driving away oil industry investment. We will need billions of dollars of investment to keep our production up, so I am hopeful the governor has not made a serious mistake with this legislation. But we won't really know for sure for a couple of years."

John Harris

Sarah Palin: Alaska superstar

Gov. Sarah Palin was aided in her efforts to change the state's relationship with the oil and gas industry by an unprecedented popularity among the Alaska public.

Palin won her campaign for governor with 48 percent of the vote, but quickly earned approval ratings much higher, finding support from Democrats and Republicans alike. Marc Hellenthal, an Anchorage-based pollster, said Palin's popularity as governor—judged by the percent of Alaskans with positive feelings toward her—was simply unbelievable.

Sarah Palin

"We've been polling 25 years in the state, and nobody had even come close to an 80-percent positive," he said.

Before her nomination as John McCain's running mate at the end of August (2006), Palin's approval ratings ranged from 79 to 86 percent, according to Hellenthal's figures. Of all the governors, lawmakers, mayors, and other public figures Hellenthal had tracked, only two had reached 70 percent.

….

Rep. David Guttenberg, a Democrat from Fairbanks, said it was much harder to speak out against Palin's (gas pipeline and production tax increase) proposals than against those of her predecessor, Gov. Frank Murkowski, whose approval ratings tumbled to less than 30 percent by the end of his term, prompting him to joke in a 2006 campaign ad that he might well need a "personality transplant."

….

Palin didn't use her popularity to pressure lawmakers directly, Guttenberg and others say, but the impact was still felt.

….

Palin's popularity took a dive in the state after she joined the McCain campaign, according to multiple polls. Hellenthal and others attributed the drop to the partisan nature of the campaign and the chilling effect on support from Democrats.

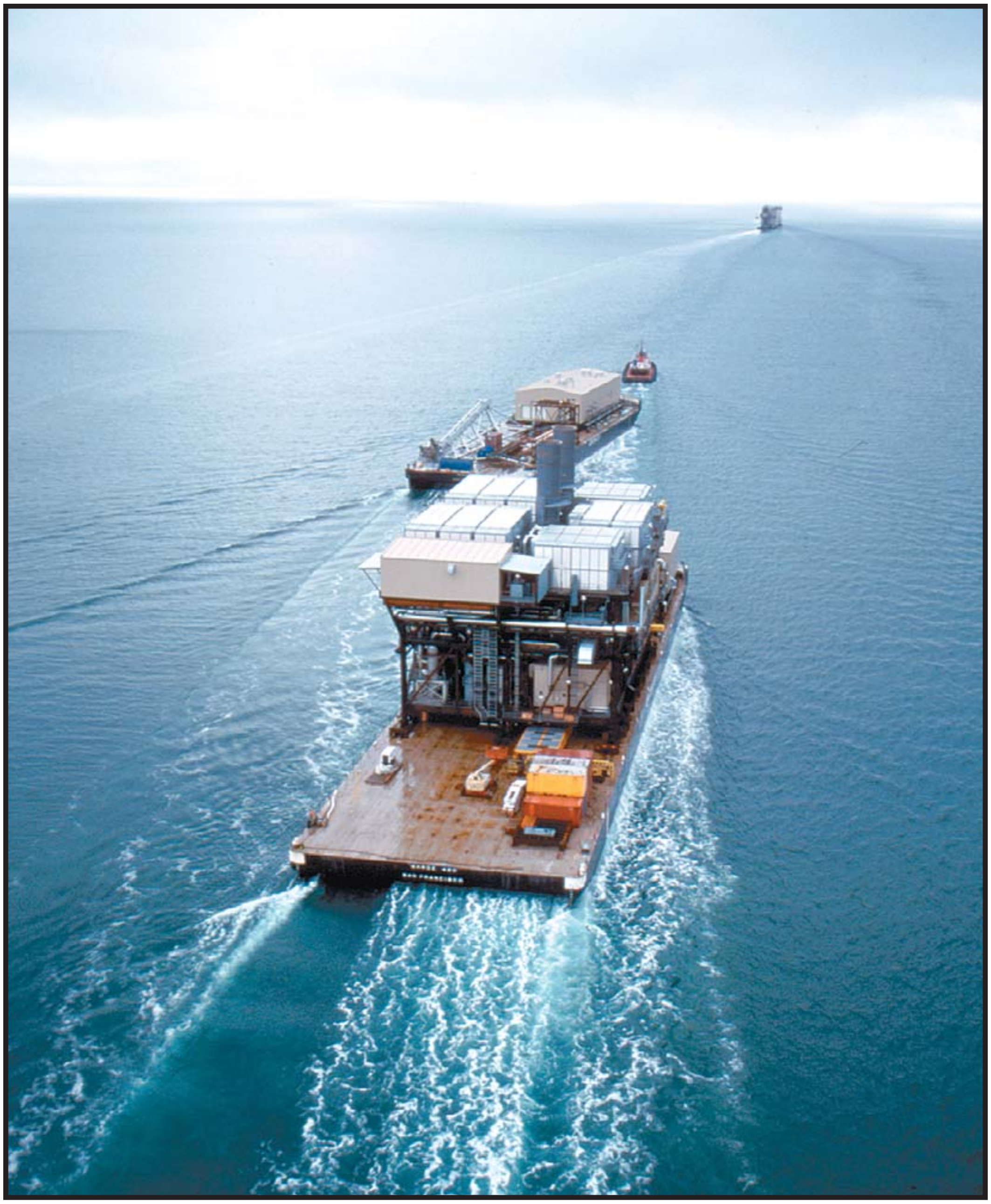
But Hellenthal added that she was still the most popular public figure in the state and would likely remain so if McCain lost and Palin returned to Alaska as governor.

"It's kind of like somebody going to the big leagues and then coming back home," he said. "She wouldn't suffer."

—by Stefan Milkowski for "Sarah takes on Big Oil"

Images of Alaska's oil and gas industry

The center of the book contains eight pages of photos of Alaska's oil and gas industry from photographer Judy Patrick.



North to Northstar; plying the Arctic Ocean

A 2001 sealift to BP's Northstar oil field development project included two process modules, a compressor module, a pump skid and a warehouse/shop building. The modules were fabricated in Anchorage.

Offshore exploration in the Arctic

The SDC (steel drilling caisson), a bottom-founded Arctic drilling platform, was used to drill the McCovey prospect in the Beaufort Sea, 12.5 miles northeast of West Dock at Prudhoe Bay.

McCovey today is a lonely point on the map, some five miles northeast of Reindeer Island.
Calgary-based Alberta Energy, now called EnCana, drilled the prospect in early 2000. The SDC has an air-tight subsea chamber.

McCovey was a bust. No commercial quantities of oil and gas were found. ConocoPhillips and Chevron were partners in the venture.