

Report Claims Hidden Profits for TAPS Owners

By Susie T. Parker

WASHINGTON — A loophole in the 1985 settlement of a tariff dispute involving the Trans-Alaska Pipeline System (TAPS) is pouring hundreds of millions of dollars of hidden profits into the pockets of the pipeline owners each year, says a report to be released in Valdez,

Alaska, today (Wednesday).

The hidden income — nearly \$1 million a day by what the report called conservative estimates — is derived from a fee the pipeline owners collect to make future payments for dismantling, removal and restoration (DR&R) of the 800-mile pipeline across Alaska from the North Slope to Valdez, it said.

The collection of DR&R fees

was established as a provision of the settlement of the TAPS's tariff dispute.

The goal, according to the report, was for the pipeline owners and the state of Alaska to accumulate enough money to remove the TAPS pipeline and restore the corridor when production in the North Slope ends. It was not to be a profit-making venture.

But that's not how things have
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turned out, the report charges.

The settlement has allowed the pipeline owners to overcollect DR&R funds from shippers on TAPS and then to combine them with their company profits to a point where they become essentially untraceable, said Richard A. Fineberg, president of Research Associates, a consulting group in Tallahassee, Alaska, and author of the report.

He was commissioned to do the report by Stan Stephens, a member of the Prince William Sound Regional Citizens' Advisory Council. Atlantic Richfield Co., a major owner in the pipeline, declined to comment on the report. Attempts to obtain comments from two other pipeline owners, BP America Inc. and Exxon Corp., were unsuccessful.

Those three companies own approximately 90 percent of the pipeline and are the only companies among the seven owners cited in the report.

The report questions the settlement's wisdom because it did not direct DR&R collections to be placed in an escrow account beyond corporate reach. Nor did it require the pipeline owners to segregate the funds in a special internal account.

As a result, the report noted, the owner companies were given free use of DR&R funds.

Assuming that dismantling of the pipeline begins in 2010, the report estimates the pipeline owners will not only have enough money to carry out DR&R activities, but they will be left with a surplus of more than \$11.7 billion to \$22.1 billion in 1992 dollars.

A 1977 engineering estimate said it would cost only \$872 million to dismantle the above-ground portion of the pipeline. Some underground parts of the pipeline will also require dismantling, while others will simply be capped to prevent oil seepage.

By the end of this year, owner companies are expected to have accumulated \$3.3 billion in DR&R funds, according to the report. At current rates of return, it adds, the funds will grow by more than \$400 million a year.

"The TAPS tariff has been a money cow for the owner companies," Fineberg said.

The alleged overcollection of DR&R fees is not illegal, he admits. But, Fineberg added, it is "ill-gotten gain that borders on the immoral and unethical."

The TAPS' settlement, which was fashioned by state and industry officials, called for the collection of the DR&R fees in order to restore the Alaskan landscape surrounding the pipeline to its original state. Fineberg noted DR&R is similar to reclamation following strip mining.

The TAPS tariff settlement put the DR&R fee at 12 cents per barrel in 1984, he said. The pipeline owners

assured the state of Alaska the amount was sufficient to cover DR&R efforts, and nothing else, he said. The pipeline is owned by seven major oil companies.

Fineberg claims the owners misled the state about the size of the fee needed for DR&R.

The total TAPS tariff is \$3.50 per barrel today. Of that amount, only 9 cents, or about 3 percent, is actually earmarked for DR&R, Fineberg said. He estimated that 30 percent goes for profits, 20 percent for pipeline operating costs, and about 15 percent for depreciation.

The tariff is paid for by whomever purchases oil in Alaska to be shipped over TAPS. Because TAPS is owned by the pipeline subsidiaries of the major North Slope producers, the owner companies wind up paying themselves for the use of the pipeline.

"The producers who own TAPS are paying their own pipeline subsidiaries, turning this added cost into a profit-making operation," the report said.

For example, it noted, when Atlantic Richfield Co. ships a barrel of oil through the pipeline for delivery to its U.S. West Coast refinery, it makes a transfer payment to itself for TAPS shipping.

The huge profit from DR&R funds collected under the 1985 TAPS tariff settlement is "entirely separate from — over and above — the profits normally reported for North Slope production and TAPS shipments," the report said.

Though profits realized from DR&R funds are not included with earnings on North Slope production, they are lumped together with other internal funds.

"DR&R goes off the book, but it does factor into the overall net profitability" of the pipeline's owner companies, Fineberg noted.

"Where the owner companies actually hold DR&R funds and how they account for them is something of a mystery," the 51-page report said. "The funds are untraceable. They could be leaving it under their pillows at night," Fineberg added.

"While Alyeska operates the pipeline, it is the pipeline subsidiaries of the owner companies that file and collect the TAPS tariff," the report said. "DR&R income is not considered profit in the TAPS tariff. Nor is it recorded as pipeline subsidiary profit in the annual financial reports.

"For that matter, the DR&R liability is not specified in the owner company annual financial reports or 10-K filings with the federal Securities Exchange Commission," the report continued.

"These reports provide no way to tell how DR&R funds are managed or reported, or their present or future magnitude. In the absence of information to the contrary, it is assumed that earnings from DR&R are commingled with other internally held funds and reported in the bottom-line totals of corporate financial reports."

The report said DR&R collections are "buried in complicated accounts for the North Slope producers."

The hidden income from DR&R is one of the reasons why North Slope producers outpace producers in the Lower 48 states in terms of return on investment, Fineberg said.