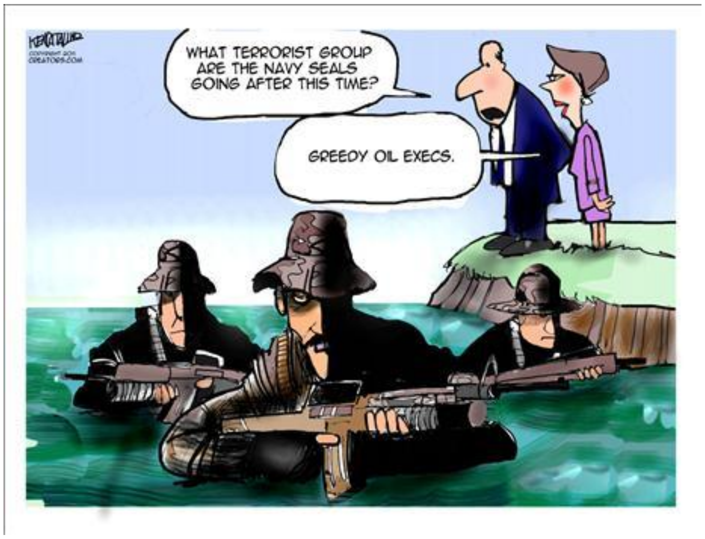
“DRILLING” DOWN IN MY OIL COMPANY REPORT

Stephen L. Bakke – May 23, 2011



I Don’t Stand Corrected … But I Do Stand Clarified

Reaction to my recent report about “P-BOb hating the oil companies” has been livelier than most (and that’s a good thing!). Very little of this reaction goes through my website “blog,” “contact tab,” or “guestbook” – so readers don’t get to see them. I welcome comments – I’m here to learn. Some had suggestions re: ways to improve my style and tone (and that’s a fair criticism!). Some accept what I wrote “hook, line, and sinker” (and that’s OK sometimes!). Some disagree with my point of view or conclusions (healthy debate is a good thing!). Some disagree with some of my assertions of circumstances and facts (challenges improve quality!). And some who consider one of my statements misleading … are correct – ouch! – **(and that’s NOT a good thing!).**

Let me take this opportunity to clarify something. First, I should not have tried to explain in “about five words” the depletion allowance. In hindsight, even with my limited tax knowledge I can see how nuance and brevity in describing the oil depletion allowance distracted readers from the most important message. I should have described it differently, but I still end up “at the same place” regarding the magnitude of economic impact, and the overall conclusion/message.

Specifically, the “**PERCENTAGE depletion”** allowance is just one permitted method for determining a tax deduction in the oil industry (other industries also). It’s not based on costs as they are incurred – as my words I implied. This is an allowable way to compute a deduction based on a percentage of revenue. While it **IS** possible for total deductions to exceed actual costs incurred in the long term (a concept that I would oppose), I understand that **over time, for the entire industry,** this method does not result in **materially** different tax collections than if deductions were permitted as costs incurred. AND, whatever this amount is, **it is not material in terms of the issues at hand – the deficit and national debt!**

Please accept the fact that I express a sincere **"Mea Culpa"** for a sloppy explanation! **Shame on me!** Now, let's move on!

BUT NOT SO FAST! This Means I Get a Chance to RANT One More Time!

The nature of this tax deduction is NOT the important thing. Please ponder these important points which ARE the important elements of my intended message:

- Tax regulations for the oil industry, in general, are equivalent or similar to deductions claimed by other industries. If you find some differences just set them aside for now, because **THAT'S NOT THE POINT of this discussion!**
- The amount of the economic impact of this dispute is not generally in question. **Relative to the deficits and the national debt, the amount involved for the tax deductions being discussed is miniscule!** The national debt is $14 trillion. The handfull of oil industry deductions in question result in $4 billion in lost revenue annually. That's .0286% of the total debt and about .267% of our ANNUAL deficit. The Senate democrats are playing to the cameras!
- Blaming deficit problems on the oil industry is incorrect and unfair!
- Blaming the oil industry for the price at the pump is incorrect and unfair!
- Oil companies **should** pay their fair share of taxes – but that knife cuts both ways.
- Oil companies' profits are about 6 to 7 cents on each dollar sold at the pump. Federal, state and local governments collect **7 to 10 times** that amount of taxes at the pump. **Which would have the largest impact on the price of gas – oil profits or tax charges?**
- If gas prices were rolled back by just 10% from current levels, and if that reduction was borne entirely on the oil companies, virtually ALL (or maybe ALL!) corporate profits would disappear. **So, the bulk of the problem DOES NOT reside there!**
- Contrary to the accusations made by the democrats in the Senate, it is NOT just the "big wigs" and top management that own the oil companies? Recent data shows that less than 1% of Exxon Mobil is held by the "very wealthy". There are also a few million additional shareholders of various levels of more modest wealth. Yet, a **vast majority** of the stock is held by pensions, 401k plans, etc. **The majority of "beneficiaries" of oil profits are definitely, and provably, "the little guy"!!!**
- Allowing deductions for legitimate business expenses is NOT a subsidy. The oil companies are entitled to fair and equitable treatment compared to other and industries. Treating one industry less favorably than others is wrong. The oil companies should not be "punished/penalized" for operating effectively and returning healthy profits.
- **Can You Spell Demagogue?** You spell it D-E-M-A-G-O-G-U-E, but it's pronounced "di-ˈstrak-shən"! The administration and the democrats are desperate to find and take a bold stand on some issue to distract citizen/consumers from various concerns which include the deficit, growing national debt, unemployment, housing prices, and (here it gets a little uncomfortable for them) the utter **absence** of an energy policy!
- We are witnessing the workings of a desperate group, which manifests itself in the machinery of shame, blame and actions by demagogues. The cameras are rolling, and since when has anyone who admitted incompetence been reelected? So … the evil and greedy oil companies have been "assigned" to be the "fall guy" and shoulder the blame

for all the failings of the marketplace, and even many **regretable political misjudgements.**

Let Me Pound on My Message Some More – I Thank My Critics for This Opportunity!!

Oil, natural gas, and coal are an inescapable part of any solution to gaining energy independence – and the related statistics are startling! I came up with some interesting comparisons. I found much of this in research presented by Paul Driessen. This is from 2007 and 2008:

- Oil and natural gas provide about 60+% of the energy that powers America. And "coal for energy" would add **significantly** to that total!
- Wind and solar combined account for barely .6% of total U.S. energy, and 1.9% of electricity generation.
- In subsidies per unit of energy ACTUALLY PRODUCED, gas-fired electricity generation got **25 cents** per megawatt-hour in subsidies.
- Coal received **44 cents** (mostly for clean technology research).

Compare those amounts to:

- Wind turbines got **$23.40 per megawatt-hour** in subsidies.
- Solar received **$24.30 per megawatt-hour** in subsidies.
- Approximately **$1.6 Billion in federal subsidies** went to a GE project, the "Shepherds Flat" wind farm in Oregon. Recall that, despite earning billions in net income in 2010, **because of "green" deductions that truly ARE subsidies, GE paid NO income taxes.**

A Tax Foundation analysis of Energy Information Agency data shows that the largest integrated oil companies paid $1.9 trillion in corporate income, severance, property, excise and sales taxes, from 1981 and 2008 (28 years). During that time, those companies' total combined profits (net of taxes and expenses, and after adjusting for inflation) were $1.4 trillion. While the latter of these is adjusted for inflation, and the other is not (spin doctoring is an affliction of all sides in a debate), you can see that the relative amounts are absolutely not what the public would expect!

I'll Say It Again

This administration and the more liberal elected officials don't REALLY want the oil companies to contribute to lower prices at the pump or national energy independence. They would prefer to see the entire oil/coal/gas industry fail and just get out of the way!

Once again they are foolishly picking winners and losers! And that must stop!!!

I'm "spent and out of breath" from this RANT! And, "Elvis has left the building!"

But stay tuned!