ACES: A Hard Won Victory

Alaska's oil production tax, known as ACES, is doing exactly what it was designed to do – give Alaskans a fair share of money from our oil when prices are high, while automatically providing tax relief if oil prices drop to low levels.

My opponent doesn't understand that – perhaps because he wasn't in the Legislature when we passed it. I'm proud I led the fight for ACES, working hard with lawmakers like Representative Les Gara and Senator Bill Wielechowski. We fixed the tax that was tainted by Veco's corruption scandal.

Thanks to ACES, we've been able to put billions back into state savings accounts, forward-fund K12 education, and invest in renewable energy projects throughout the state.

ACES has not hurt development at all on the North Slope. Since ACES passed in 2007, there are more people working in the industry. Since it passed in 2007, there is more investment in the industry. And profits for the producers -- ExxonMobil, ConocoPhillips, and BP -- remain strong.

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The modern history of oil tax reform begins in 2005 when Les Gara and other Democrats began to try to fix the loophole in the oil production tax known as ELF, or economic limit factor. At Kuparuk, for example, the second largest oil field in North America, the tax was getting lower every year and would soon be zero. Obviously, the state was not getting a fair share of the revenue from that field.

At that time, the oil tax reform effort was spearheaded by Democrats in a Republican controlled Legislature, so it never got very far. Nevertheless, Les Gara and other Democrats began to make people aware that our oil taxation system was not working.

ELF was a so-called 'gross' tax, meaning the state simply took a portion, albeit a small portion, of the gross production. ELF included a formula that was supposed to reduce the tax on smaller, less profitable fields – but it was giving away hundreds of millions of dollars in state revenue from the highly profitable fields at Prudhoe Bay and Kuparuk.

In 2005 and 2006 Frank Murkowski was negotiating a gas pipeline contract with the producers -- Exxon, ConocoPhillips, and BP. As part of that gas pipeline deal, he and the producers wanted to convert the state's oil production tax to a new tax based on profits from oil production. That tax was known as PPT, the Petroleum Profits Tax. In a series of special sessions in the summer of 2006, the PPT tax became law. Few Democrats supported it. Profits-based taxes are more complex to administer than gross taxes, which are based on the amount of oil produced. There were significant concerns that the PPT tax allowed too many loopholes for excessive deductions.

Two weeks after the PPT tax passed, the FBI raided legislative offices in Juneau and in Anchorage. Thus began a sordid chapter in Alaska's history. We all learned that votes were being bought and sold for the PPT tax. Legislators were caught on tape doing illegal acts for small sums of money. Some went to jail.

That scandal helped Sarah Palin get elected governor in the fall of 2006. The next year, Democrats and others encouraged her to re-visit oil taxes, as it was becoming clear that the PPT tax was tainted by corruption. In the fall of 2007, Palin called the legislature into special session to consider her tax proposal known as ACES, or Alaska's Clear and Equitable Share. Her version was a fairly tepid reform. It was an improvement over PPT and ELF, but only a modest improvement.

Palin was polarizing then, just as she is now. But unlike many in her party, she was willing to take on the oil industry. About half the Republicans in the Legislature were willing to follow her, too, which led the way to fixing oil taxes without the influence of VECO.

Another crucial difference between 2006 and 2007 was that Democrats were in a position of power in 2007, because we had joined a bipartisan coalition to run the state Senate. As ACES moved through the system, Democrats used their power to improve ACES considerably. Deductions were tightened. The basic tax rate was increased. The feature known as "progressivity" – which boosted the tax rate when oil prices got especially high – was strengthened.

The bill passed after a pitched battle in both chambers. The votes to pass ACES came from nearly all the Democrats and the half of the Republicans who were willing to follow Palin.

Keep in mind what an unusual time that was. The enormous power that the oil industry normally wields in Juneau was severely curbed by the FBI raids, the arrest of sitting legislators, and the revelations of bribery and vote selling. Palin was willing to go along with a significant tax increase. The Republicans were split into two camps and the Democrats were in a position of influence. It was a unique moment in the state's history.

Moreover, we had been studying this issue since early 2005, when Les Gara got us started down this road. We had access to many highly specialized experts in the rather arcane field of oil industry taxation. The data showed us that there were enormous profits that were flowing to the industry, especially at Prudhoe and Kuparuk, the two biggest fields in the country. We had considered going back to a gross tax, but had gradually become convinced by the data that a profits-based tax was better.

Here's one good example why: a profits-based tax automatically adjusts to the economics of different fields. Since a profits-based tax lets you deduct all your costs before a penny of tax is paid, it helps incentivize high-cost fields like West Sak, which has millions of barrels of very heavy, viscous oil. All the costs of drilling for and producing that heavy oil will be deducted before any tax is paid. On the other hand, at highly profitable fields, like Prudhoe, the state gets a fair share of the profits.

When oil prices hit $145 a barrel in 2008, ACES allowed us to capture some of that bonanza. Indeed, that year the Legislature put $5 billion into savings, the single biggest deposit into savings in the history of the state. Since then, ACES has helped pay for renewable energy projects around the state. We have used the money to forward fund education, something that school districts had been begging for for a long time. We have also continued to save. The state's savings accounts now have about $12 billion put away for a rainy day. And that's not counting the Permanent Fund. ACES has put the state on a firm financial footing.

Moreover, ACES has not hurt development at all on the Slope. Since it passed in 2007, there are more people working in the industry. Since it passed in 2007, there is more investment in the industry. And profits for the producers -- ExxonMobil, ConocoPhillips, and BP -- remain strong.

So when my opponent comes along with an idea he claims is far better than ACES, you should be skeptical.

My opponent was not there in Juneau in 2007 when we did this work. He had run for lieutenant governor against Sean Parnell in 2006 and lost. Now someone who did not participate in the debate is suddenly jumping up and saying he's got a far better idea. He served in Juneau for ten long years. Why didn't he offer his radical proposal to do away with oil production taxes back then?

So far, the only person supporting my opponent on this untested idea is a BP tax attorney. Is that who you want to trust on something this important?

Opposing his idea are Alaskan giants like constitutional convention delegate Vic Fischer and former Anchorage borough mayor and oil industry historian Jack Roderick. An economist from the Institute of Social and Economic Research said my opponent's idea would give "inherent advantages" to the producers. And Richard Fineberg, who is one of Alaska's foremost experts in this area, said that my opponent's plan would be a "huge signal to the industry that we're your pawn, are going to roll over and play dead, or we are delivering the instability that you fear."

In selecting a governor, you are picking someone who makes decisions that involve billions of dollars for Alaskans. You want someone with the good judgment and strength of character to deal with some of the largest companies in the world.

ACES was a hard fought victory, won by Democrats for all Alaska. It shouldn't be tossed aside in an election year.

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