

# PIONEER

## NATURAL RESOURCES

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March 10, 2010

Representative Craig Johnson  
Co-Chair, House Resources Committee  
Alaska State House of Representatives  
State Capitol, Room 126  
Juneau, Alaska 99801-1182

Re: Committee Substitute for House Bill 308 – Oil and Gas Production Tax

Dear Representative Johnson:

On behalf of Pioneer Natural Resources Alaska, Inc. (Pioneer), I am writing to share our views on the Committee Substitute for House Bill 308 (CSHB308). In this letter I will provide you with; 1) a brief overview of Pioneer as a company and our activities in Alaska, 2) a high-level analysis of the effects Alaska's various fiscal regimes have had on our business and 3) specific comments regarding the provisions of CSHB308. Thank you for providing an opportunity to share this information with you.

### Pioneer Overview

Pioneer is a large independent oil and gas exploration and production company headquartered in Irving, Texas. The company has operations throughout the contiguous United States and in both Tunisia and South Africa. Company-wide, Pioneer employs nearly 2,000 people and produces more than 100,000 barrels of oil equivalent per day.

In Alaska, Pioneer operates the Oooguruk Unit on the North Slope – currently producing approximately 9,000 barrels of oil per day – and the Cosmopolitan Unit in Cook Inlet – a discovered resource where the company continues to conduct appraisal activities. Since coming to Alaska in 2003, Pioneer has drilled 11 exploration wells, become the first independent company to operate a field on the North Slope at Oooguruk and has worked diligently to commercialize the resource at Cosmopolitan. Anchorage serves as the company's headquarters in Alaska and Pioneer employs 49 people in the state.

### Evolution of Alaska's Oil & Gas Severance Tax System

Pioneer's business activities in Alaska have coincided with state government's recent debates regarding the proper structure for Alaska's severance tax system. In 2006, following a royalty modification decision from the Alaska Department of Natural Resources, Pioneer sanctioned its Oooguruk project. At that time, the Economic Limit Factor (ELF) served as Alaska's severance tax system. Due to the characteristics of the Oooguruk field and the structure of ELF, Pioneer expected its effective severance tax rate to be nearly zero on a gross basis.

In 2007, while Pioneer began construction at Oooguruk, the state Legislature passed the Petroleum Production Tax (PPT) a monumental shift in the state's severance tax structure. At its core, PPT combined a 22.5% tax on the net value of oil produced with a 20% credit for qualified capital expenses. During the debate over PPT, Pioneer testified that the capital credits resulted in a modest improvement for project economics.

In 2008, as production from Oooguruk began, the Legislature created yet another severance tax system – Alaska's Clear and Equitable Share (ACES.) In addition to raising the base tax on oil and gas from 22.5% to 25%, ACES created a new progressivity tax which adds 0.4% per \$1/BOE when the production tax value is between \$30 and \$92.50. When the production tax value exceeds \$92.50 the progressivity factor is reduced to 0.1% per \$1/BOE. Pioneer believes the aggressive progressivity factor in ACES pushes the tax rate out of balance with the capital credit benefit and therefore does not optimize the balance between state revenues and industry investment over the long term.

#### Pioneer Comments on the Provisions of CSHB308

- **30% Credit for Well Work**

With daily production flowing through the Trans Alaska Pipeline System at one-third of its historical peak, Alaska needs new barrels regardless of how or where they are developed on the North Slope. All things being equal, the increased credit for well work will lead to additional investment resulting in the production of new barrels. Pioneer supports this provision.

- **Reduction in Progressivity from 0.4% to 0.2%**

The aggressive nature of progressivity under ACES effectively takes away the price upside for Alaska projects making it more difficult for prospective Alaska investments to compete for capital. The bulk of Pioneer's current investments are being made in other areas of the United States where the severance tax regimes are much more favorable. While CSHB308 is a step in the right direction, Pioneer remains concerned that the progressivity tax negatively affects the ability of the industry in Alaska to attract capital.

- **Reduction of Audit Period from 6 to 3 Years**

Three years is ample time for the Alaska Department of Revenue to conduct and complete its audit work. Additionally, this language reduces tax-payer uncertainty – something that remains a problem with the ACES tax. Pioneer supports this provision.

- **Waiver of Interest Due to Retroactive Regulations**

Mandating that interest penalties related to regulations applied retroactively will not accrue until 30 days after the effective date of the regulation is a matter of fairness to the industry. Again, this language will help to reduce tax-payer uncertainty under ACES. Pioneer supports this provision.

- **Interest Rate = Lower of Fed Funds + 2% or 11%**

Alaska's current statutory rate of interest is punitive and is out of proportion when compared to other oil and gas producing states. For example, Pioneer has large operations in both Colorado and Texas where the current interest rates are 6% and 4.25% respectively. Pioneer supports this provision.

- Tax Rebate Related to Alaska Hire

Pioneer understands and supports the State's goal of maximizing the hiring of qualified Alaskans. Nevertheless, this is a complicated issue with a high potential for creating unintended consequences. Pioneer urges the committee to move carefully on this provision.

#### Conclusion

Pioneer has been an active investor since coming to Alaska in 2003. At Oooguruk, we are working to grow our production to a peak of 15,000 – 20,000 barrels per day. At Cosmopolitan we are striving to commercialize an oil resource estimated to be 30 – 50 million barrels. However, projects in Alaska continue to be challenged by the cumulative negative effects of geography, seasonality, cost structure, complex regulatory environment and long project cycle times.

Increasingly resource plays, such as shale gas, throughout the contiguous United States are attracting substantial interest and investment from both independent and vertically integrated companies alike. With significantly increased competition from lower risk, domestic resources and higher taxes in the change from PPT to ACES, the competitiveness of Alaska projects for investment has declined in recent years. CSHB308 is an important first step in ensuring Alaska remains an attractive place for industry investment.

Thank you again for the opportunity to provide you with Pioneer's comments. Please feel free to contact me or my staff with questions or if you need additional information.

Sincerely,



Ken Sheffield, President  
Pioneer Natural Resources Alaska, Inc.