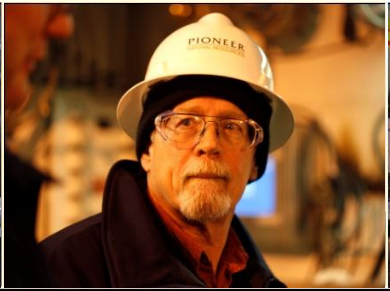
# Senate Finance Committee

## Testimony re: CS SB 21(RES)
## March 5, 2013

Todd Abbott, President
Pioneer Natural Resources Alaska

NYSE: PXD
www.pxd.com

**Pioneer Natural Resources, Alaska**

# Forward Looking Statements

PIONEER
NATURAL RESOURCES

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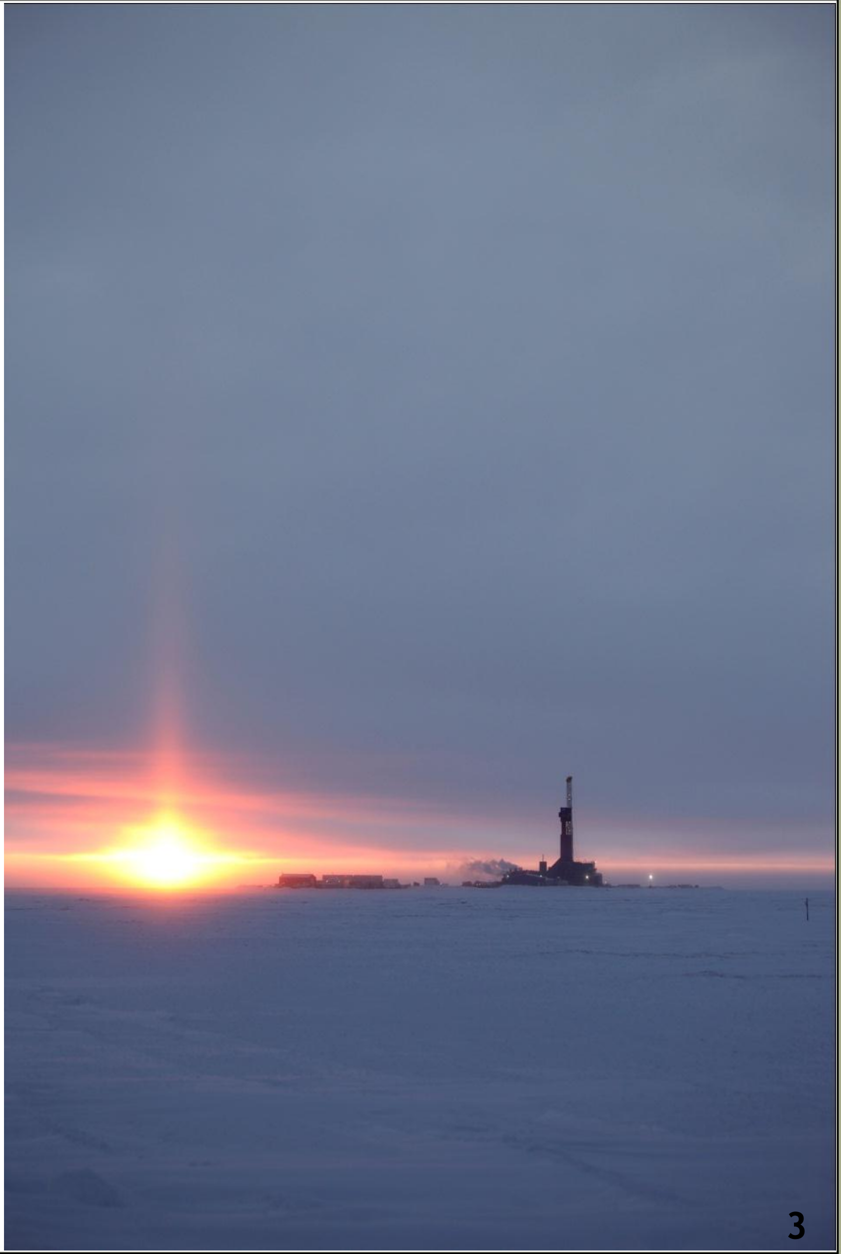
# Presentation Overview

PIONEER NATURAL RESOURCES

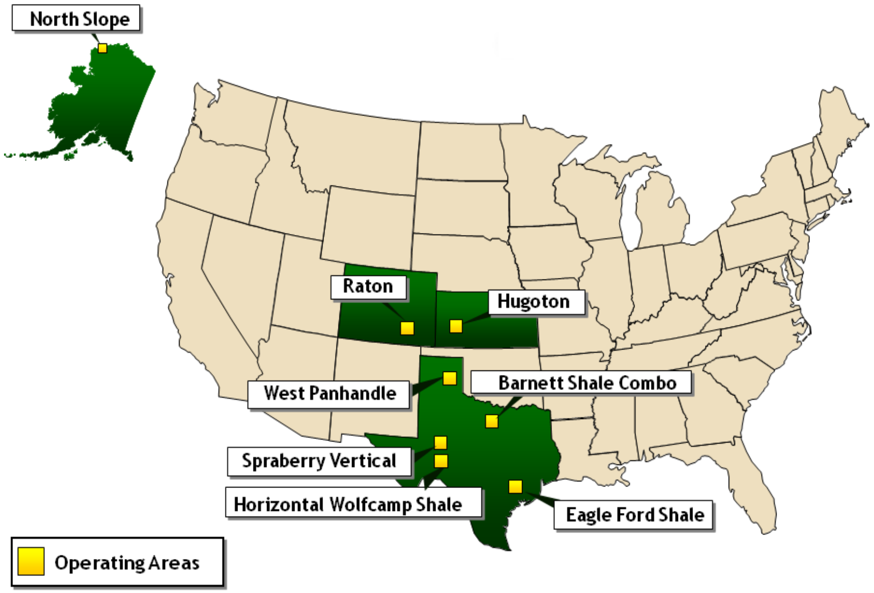
- Pioneer overview
- Importance of a healthy industry
- Competition for capital
- CS SB 21(RES)
- Incentives for Alaskan investments
- Closing thoughts



# Pioneer Natural Resources

**Corporate overview:**

- $19 Billion enterprise value
- Member of the S&P 500
- Investment grade rating
- ~3,500 employees
- $3 Billion capital budget
- $2 Billion cash flow from operations
- Leading performer in peer group




**Alaska Operations Overview:**

- 1st independent operator on North Slope
- 70+ full-time Alaska employees
- $14+ million in annual wages (employees)
- 150 - 300 Alaska contract workers
- ~$180 million 2013 capital budget
- ~6,000 BOPD gross production
- Net investor in Alaska

# Pioneer Alaska Profile: Oooguruk

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## Exploration:

- 11 exploration wells ’02 -’05
- 1 commercial project

## Oooguruk Quick Facts:

- 70% Pioneer (operator) : 30% Eni
- ~$1 billion capital invested
- 12+ million barrels produced
- ~$270 million in credits received

  (~7 % of total credits issued by the state)

**Oooguruk Project and Fiscal Policy Timeline**

Exploration | Sanction | Const. | Production | Nuna?

’02 ’03 ’04 ’05 ’06 ’07 ’08 ’09 ’10 ‘11 ‘12

The ELF | PPT | ACES | SB21/HB

# What's Next?

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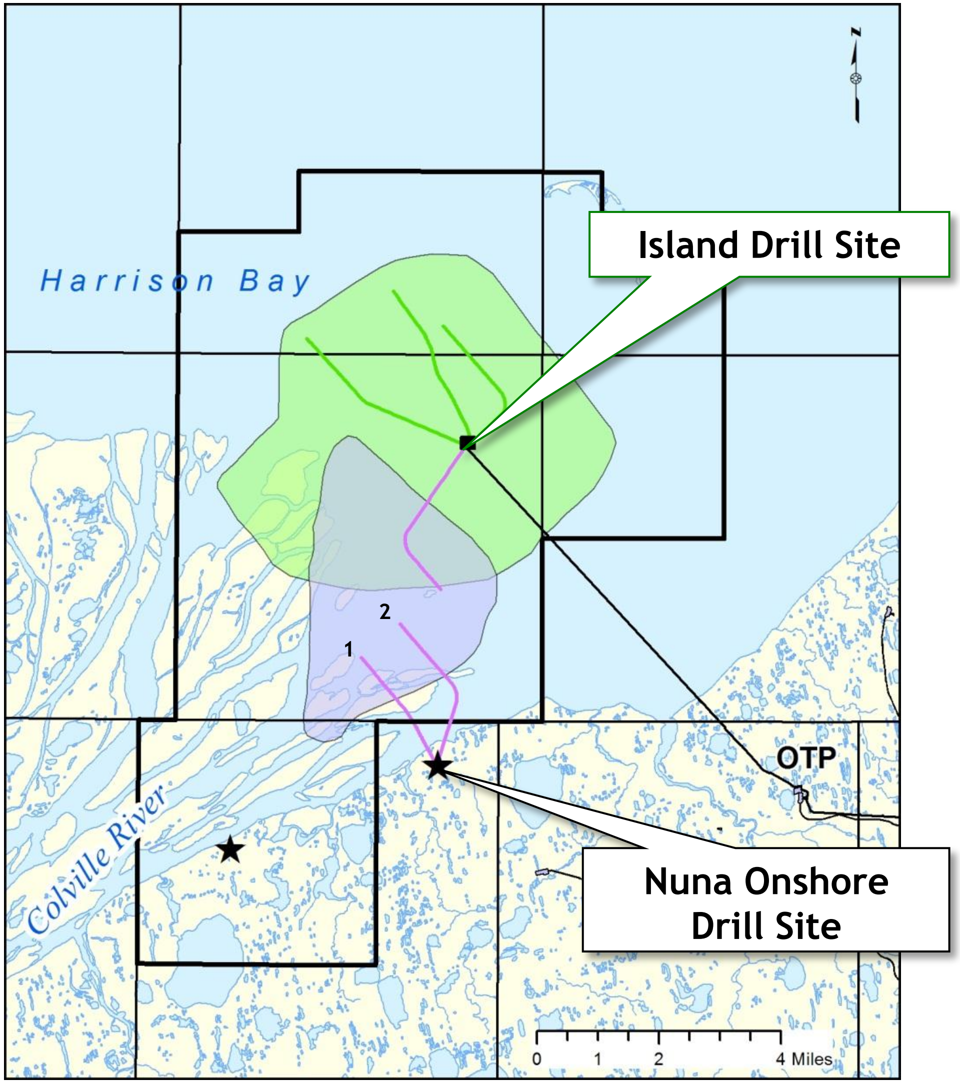
**Nuna Project:**

- Nuna-1 well drilled in 2012
- ~50 MMBO of resource potential
- Nuna-2 drilling underway
- Phase I development overview
  - Q3 2013 sanction decision
  - ~$1 Billion capital required
  - 2015 first oil
  - 14 MBOPD peak production
  - Jobs and economic impact
- Potential for 2nd drill site
- **Must compete for limited capital against low-risk, fast-cycle projects in Lower 48**



# Pioneer Competitive Resource Opportunities

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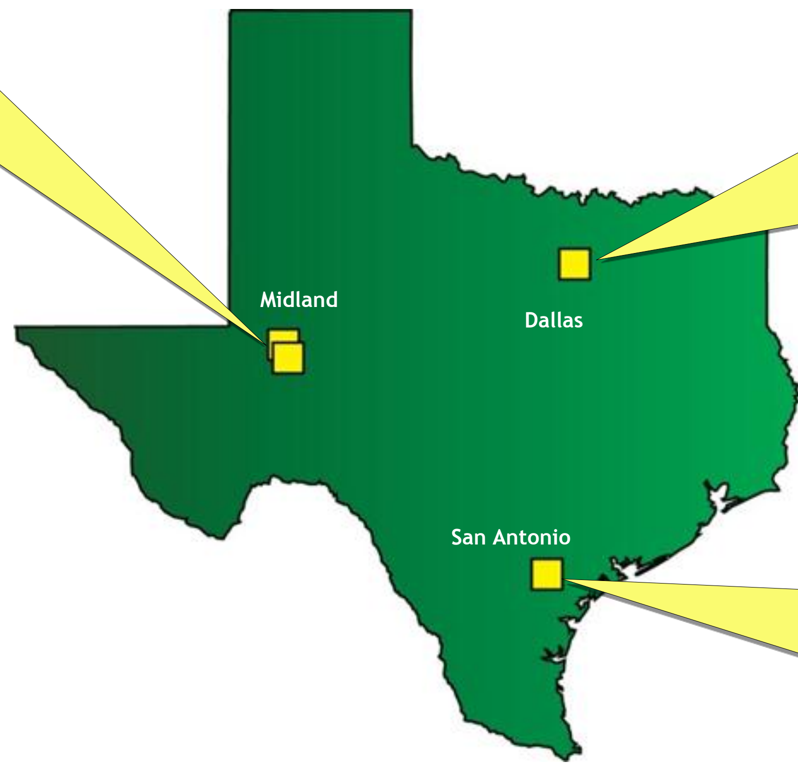
**WOLFCAMP / SPRABERRY**
$1,650 MM Drilling Program
627 MMBOE Proven

***2013 Production (Growth):***
***75-80 MBOEPD (+14 - 21%)***




**Barnett Shale Combo**
$185 MM Drilling Program
33 MMBOE Proved

***2013 Production (Growth):***
***9-12 MBOEPD (+22 - 41%)***

**Eagle Ford Shale**
$575 MM Drilling Program
116 MMBBOE Proved

**2013 Production (Growth):**
**38-42 MBOEPD (+36% - 50%)**

**> 40 rigs running**
**> 20,000 drilling locations**

# CS SB 21(RES) Comments

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**Governor's Guiding Principles**

- Tax policy must be **fair** to Alaskans
- Any changes to oil taxes should, when taken together, be geared to foster **new** production
- Changes should result in a more **simple** tax system and restore **balance** to our fiscal system
- Tax policy must make Alaska **competitive** for the long-term

- **Positives:**
  - Elimination of progressivity
  - Small producer credit extension
  - Gross revenue exclusion (GRE)
  - Escalating loss carry forward credit
  - $5 per barrel tax credit

- **Negatives:**
  - Loss of capital credits
  - Increased base tax rate
  - Complicated carry-forward loss calculation
  - Disadvantages new entrants

# Relative Rankings and Policy Considerations

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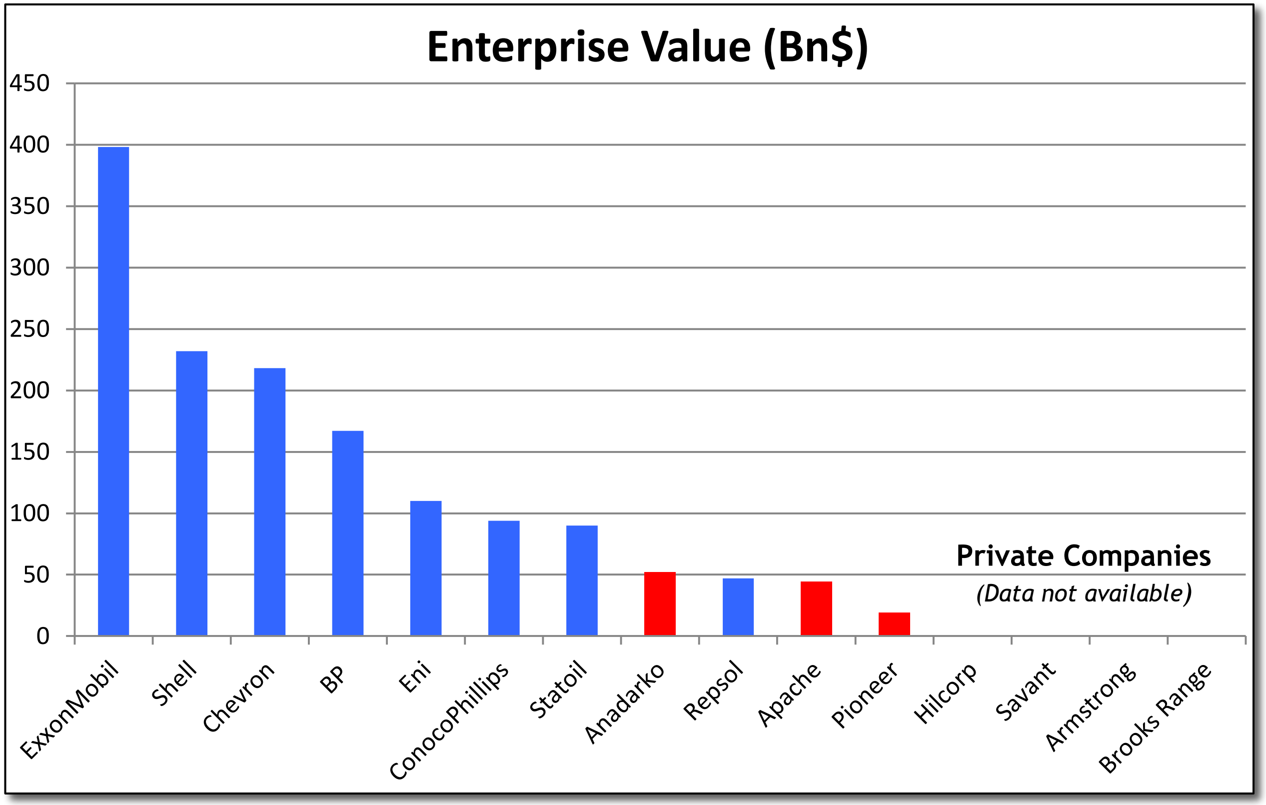


**Financial Market Drivers**

**Traditional Independents** are rewarded for production growth and debt management

**"While their [smaller Independents] production may not seem significant, their economic impact is. Some companies would have had to move their work to North Dakota if it wasn't for them."**

~Doug Smith, president, Little Red Services, Testimony before TAPS Throughput Committee Jan 13, 2013

# Eagle Ford Operators and Companies

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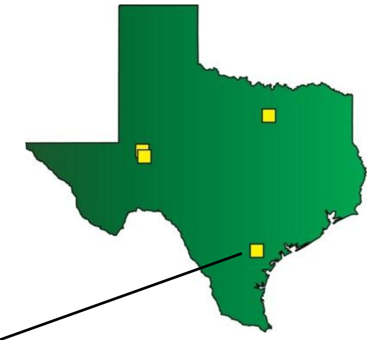
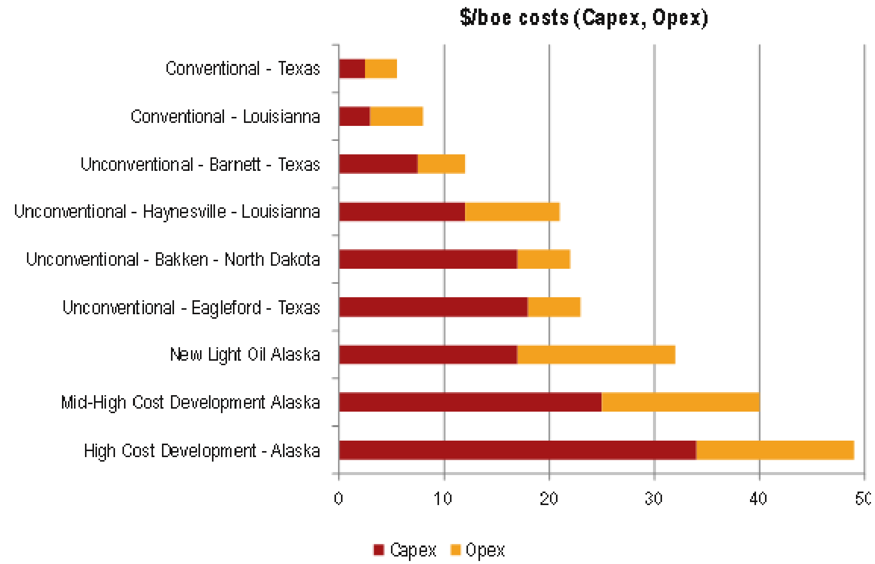
■Abraxas Petroleum ■Alta Mesa Holdings ■**Anadarko** ■**Apache Corp.** ■Aruba Petroleum ■Aurora resources ■Austin Exploration (Aus-Tex Expl.) ■BHP Billiton ■**BP** ■Cabot Oil & Gas ■Carrizo Oil & Gas ■Chaparral Energy ■Chesapeake Energy ■Cinco Resources ■Clayton Williams Energy ■Comstock Resources ■**ConocoPhillips** – (Burlington Resources) ■CNOOC (China National Offshore Oil Corporation)■Crimson Exploration ■Devon Energy ■Eagle Ford Oil & Gas Corp. ■El Paso ■Enduring Resources ■Enerjex Resources ■EOG Resources ■Escondido Resources ■Espada Operating ■**Exxon-XTO**■Forest Oil ■GAIL (Gas Authority of India Limited) ■GeoResources Inc. ■Goodrich Petroleum ■Global Petroleum ■Hess Corporation ■**Hilcorp Resources** ■Hunt Oil ■Jadela Oil ■Japan Petroleum Exploration ■KNOC (Korea National Oil Corporation) ■Laredo Energy ■Lewis Energy Group (BP Partner) ■Lonestar Resources ■Lucas Energy ■Magnum Hunter Resources ■**Marathon Oil** ■Marubeni Corporation (Hunt Oil Partner) ■Matador Resources ■Mitsui ■Murphy Oil ■Newfield Exploration ■NFR Energy ■Penn Virginia Corp ■Peregrine Petroleum ■ PetroHawk ■ PetroQuest ■**Pioneer Natural Resources** ■Plains Exploration & Production ■Redemption Oil & Gas ■ Reliance Industries ■Riley Exploration ■Rock Oil Company ■Rosetta Resources ■San Isidro Development (Acquired by Chesapeake)■Sanchez Energy ■Sandstone Energy, LLC ■Saxon Oil Company ■**Shell** ■SM Energy (St. Mary Land & Exploration)■**Statoil** ■Strand Energy ■Strike Energy ■Swift Energy ■Talisman Energy ■Texon Petroleum ■Tidal Petroleum ■TXCO Resources (Now, Newfield & Anadarko)■Unit Corporation ■U.S. Energy Corp. ■Weber Energy ■WEJCO E&P ■ZaZa Energy






*Source: Alaska Discussion Slides, PFC Energy 2012, February 11, 2013*

**http://eaglefordshale.com/companies/**

# Typical New Project Spend Profile

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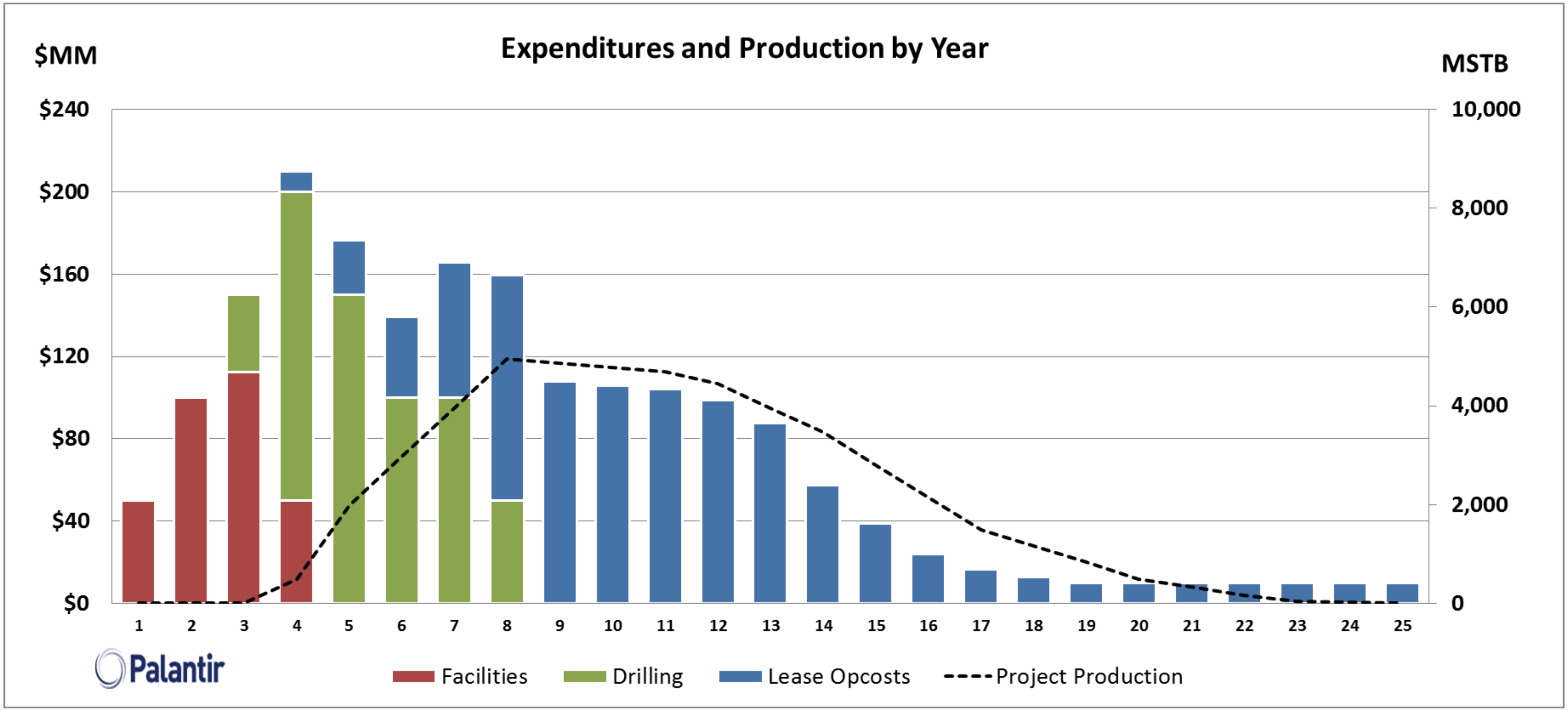
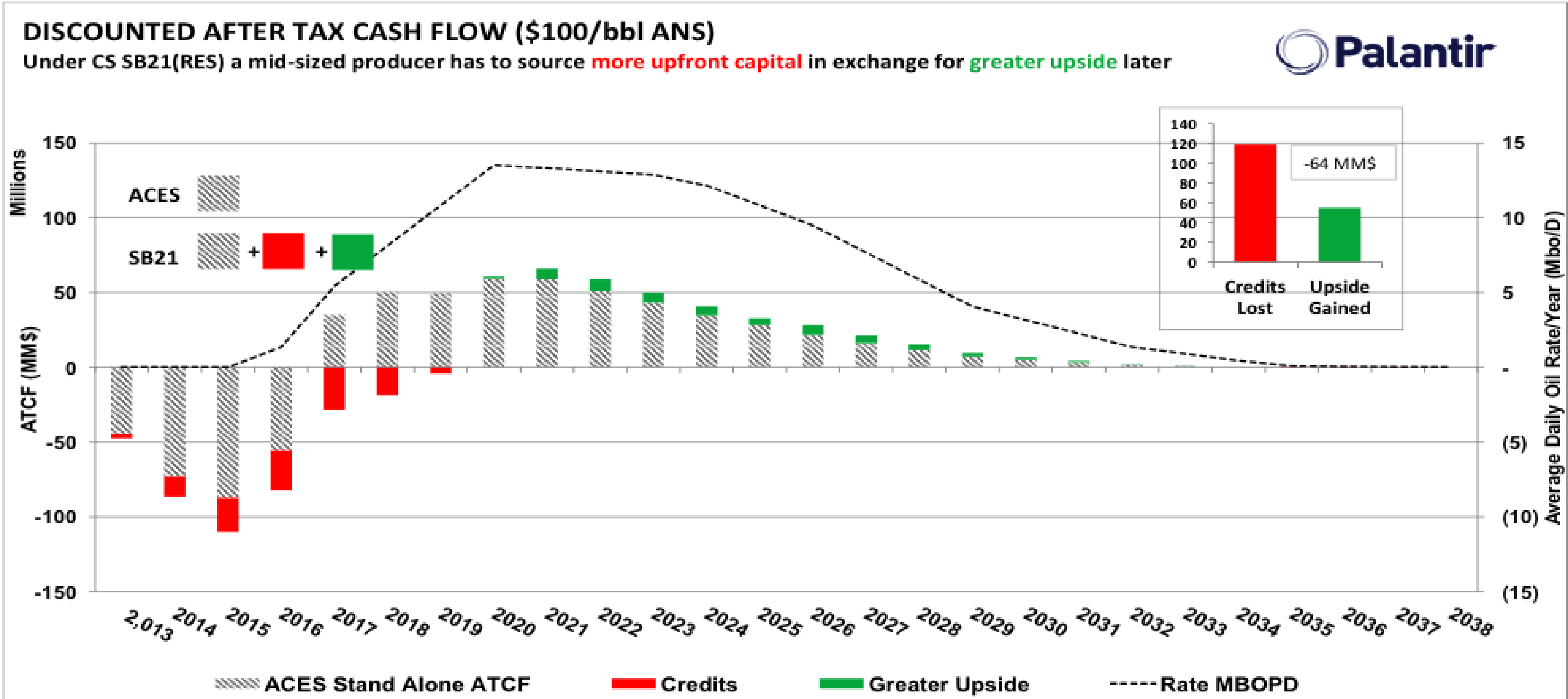



**Typical Project (after discovery):**

- 1st year: front end engineering work
- 2nd year: 100% of capital spent on facilities
- 3rd year: 75% capital is for facility work
- Drilling begins late in 3rd year, no production until 4th year
- 4th year: production begins
- Peak production rate occurs during 5th year after start of production

# Mid-Sized Producer

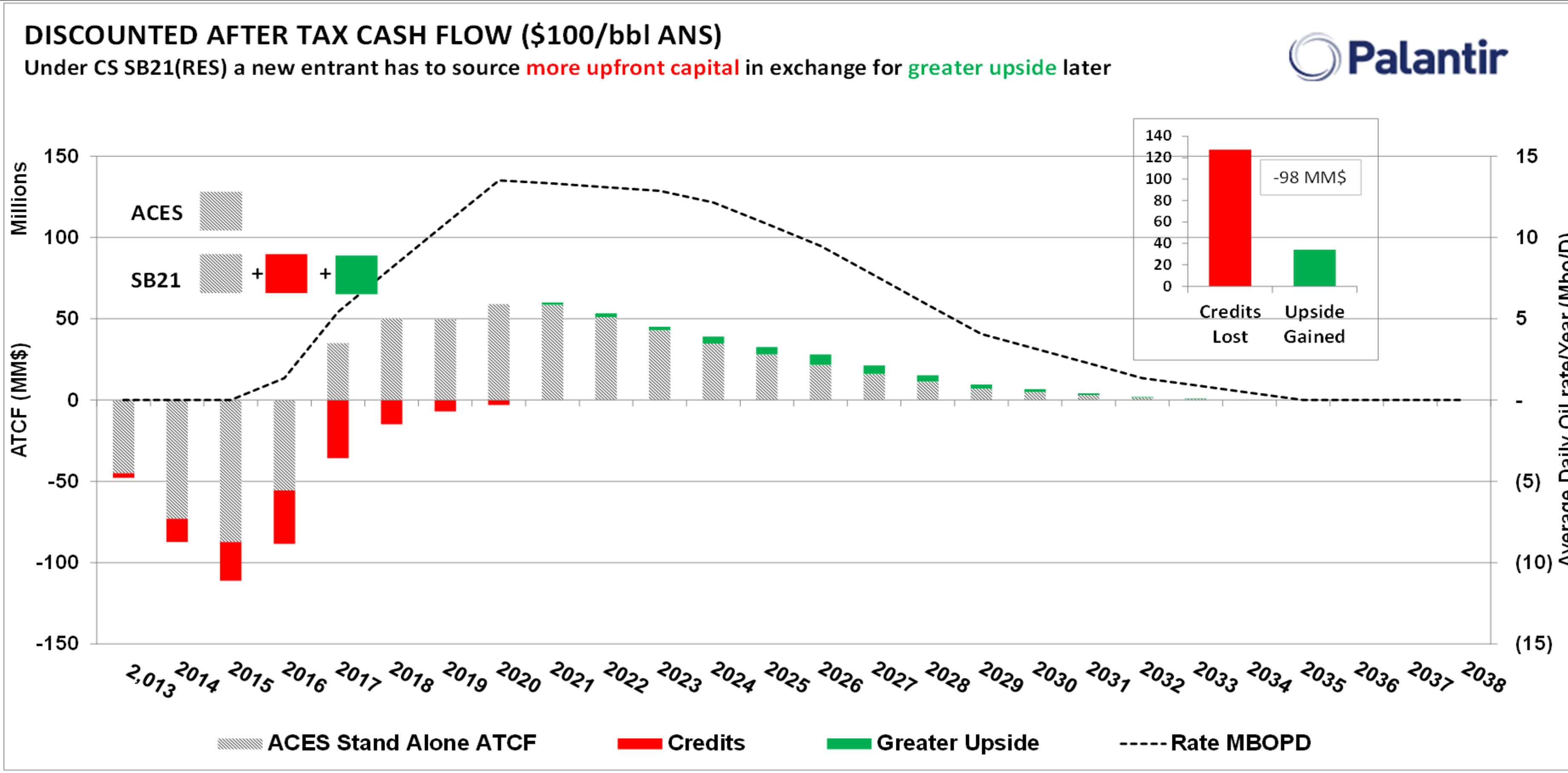





**Field assumptions:**

- 50 MMBO field
- $1 Billion Capex
- $10-$20/bbl variable Opex
- $100 ANS West Coast (Nominal)
- 35% base:5% credit
- NPV-10
- 30% Gross Revenue Exclusion
- Small Producer Credit

# New Entrant - Stand Alone Project

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# Industry Spending on North Slope

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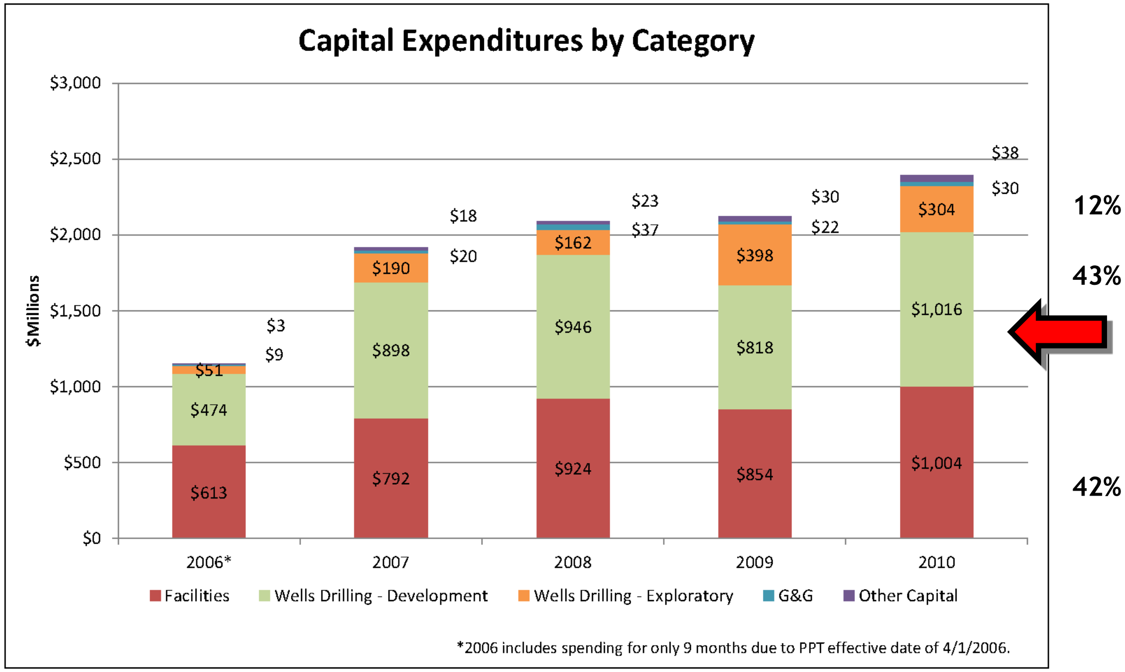
## Historical CAPEX by Category (CY)






### Alaska Department of Revenue:

### 5 year look back

- Goal: to answer capital expenditure questions relating to credits
- Oil industry capital expenditures by category
- Categorized capital expenditure data represents 90% of costs related to credit applications

Source: Dept. of Revenue presentation to the Senate Resources Committee, Feb. 13, 2012

# Fostering New Production: Why Credits Matter

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- **Benefits to State**
  - Credits directly encourage activity in Alaska
    - Jobs, direct and indirect (9x multiplier)
    - More wells
    - More oil
    - More royalties, taxes and throughput

- **Benefits to Developer**
  - Reduces investor risk
  - Improves small project economics
  - Improves financial performance
    - Doesn't increase debt
  - Builds healthy industry
  - Strengthens competitiveness

**Purpose of Tax Credit Provisions:**

*"The fiscal impact of the tax credits was an investment incentive that state must offer to secure a 'long-term stream of oil.'"*

*- Senate Finance Committee 5/13/2003*

*Source: DOR Presentation to Senate Resources Committee 2/13/2012*

*"Recommend targeted tax credits as being preferable [vs GRE], they provide incentive to invest."*

*- Roger Marks, Senate Finance Committee 03/04/2013*

# CS SB 21(RES) Closing Thoughts:

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- **Pros**
  - Eliminates progressivity
    - Shares upside potential
    - Improves competitiveness
  - GRE reduces tax for new oil
  - Extends small producer credit
- **Cons**
  - Elimination of credits increases investor risk
    - Requires more upfront capital
  - Increased base tax rates
  - Does not simplify tax calculations
    - Complex carry-forward loss calculations
  - Does not strongly motivate additional investment
- **CS SB 21(RES) suggestions**
  - Targeted credits for new facilities/well related costs
  - Allow targeted credits to be redeemable / transferable
  - Allow credits to be taken against any payment to the state