Senate Resources Committee
Testimony re: SB 21/HB72
Feb. 18, 2013

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Pioneer Natural Resources, Alaska
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Presentation Overview

- Pioneer overview
- Importance of a healthy industry
- Competition for capital
- SB 21/HB 72
- Incentives for Alaskan investments
- Closing thoughts
Pioneer Natural Resources

Corporate overview:
- $19 Billion enterprise value
- ~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
- ~ 40% production growth anticipated for 2014
**Pioneer Alaska Profile: Oooguruk**

**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)

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### Oooguruk Project and Fiscal Policy Timeline

<table>
<thead>
<tr>
<th>Exploration</th>
<th>Sanction</th>
<th>Const.</th>
<th>Production</th>
<th>Nuna?</th>
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<td>’02</td>
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<td>‘12</td>
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**The ELF**

**PPT**

**ACES**

**SB21/HB**
What’s Next?

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
## Competition For Alaska - An *Independent’s View*

### Alaska Relative to Lower 48 Resource Plays:

**Resource**

<table>
<thead>
<tr>
<th>Resource Report Card</th>
<th>Alaska</th>
<th>Lower 48</th>
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<tbody>
<tr>
<td>Resource Potential</td>
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<td>Resource Competition</td>
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<td>Geologic Risk</td>
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<td>Oil Bias</td>
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<td>Regulatory Process Ease</td>
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<td>Land Acquisition</td>
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**Profitability**

<table>
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<tr>
<th>Profitability Report Card</th>
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<tbody>
<tr>
<td>Cycle Times / Payback</td>
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<tr>
<td>Execution Risk</td>
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<tr>
<td>Operational Flexibility</td>
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<tr>
<td>Operating Margins</td>
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<td>✔️</td>
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Pioneer Competitive Resource Opportunities

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

*Vertical Program*
- 20 Wells (’13)
- +1.5 BBOE Net Potential

*Wolfcamp / Spraberry*
- 30-40 Wells (’13)
- +3.0 BBOE Net Potential

*Wolfcamp Joint Interest Area Drilling Program(2)*
- 120 wells (’14)
- +1.6B BBOE Net Potential

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

> 40 rigs running
> 2000 drilling locations

**Barnett Shale Combo**
$185 MM Drilling Program
33 MMBOE Proved
+300 MMBOE Net Potential

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

**Eagle Ford Shale**
$575 MM Drilling Program
116 MMBBOE Proved
86 Wells (’13)
+340 MMBOE Net Potential

2013 Production (Growth):
38-42 MBOEPD (+36% - 50%)
2013E Capital Spending and Cash Flow¹

- Capital Program of $3.0 B includes:
  - Drilling capital: 2.75 B total
    - $190 MM Alaska
      (7% of pioneer drilling capital)

- Capital program funded from:
  - $2.0 B operating cash flow
  - $0.6 B joint interest cash flow (2)
  - $0.4 B capital markets

¹ Capital spending excludes acquisitions, asset retirement obligations, capitalized interest and G&G G&A
2 Pioneer incurs 100% of capital costs from January 1st through estimated closing date of June 1st; Pioneer will be reimbursed by Sinochem for 40% of this amount as an adjustment at closing (not credited to cost incurred); Sinochem pays 40% of capital costs and carries Pioneer for 75% of Pioneer’s 60% of capital costs post closing
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

**Negatives:**
- Disadvantages smaller new projects
- Loss of capital credits
- Complicated carried-forward loss calculation
- No GRE for legacy fields
- Advantage to legacy producers may motivate consolidation of assets
Relative Rankings

Enterprise Value (Bn$)

Private Companies
(Data not available)
What is an Independent Oil and Gas Company?

- **Independents**¹
  - A non-integrated company
  - Primarily in the exploration and production side of the industry (limited downstream)
  - Come in large, medium and small varieties
  - ~18,000 companies in U.S.
  - Accounted for 2.1 million U.S. jobs in 2010
  - First to drill in the offshore
  - Often first to adopt and develop new technologies
  - Independents account for 65% of total natural gas production and 45% of total oil production in the United States
  - Independents drill close to 94% of America’s oil and natural gas wells

- **Financial Market Drivers**
  - Independents are rewarded for production growth and debt management

¹ Source: The Economic Contribution of the Onshore Independent Oil and Natural Gas Producers to the US Economy, IHS Global insight(USA), Inc, April 2011

“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

“Independents compete on growth”

-Tony Reinsch, PFC Energy
TAPS Throughput Decline Committee 1/31/13
Eagle Ford Operators and Companies

- 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
- Saxo 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


http://eaglefordshale.com/companies/
Annual State Revenues and Producer Cash Flows at $100 West Coast ANS Light Conventional Oil Alaska Development
New Participant in Alaska

Econ One Research
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
New Entrant - Stand Alone Project

DISCOUNTED AFTER TAX CASH FLOW ($100/bbl ANS)

Under SB21 a standalone producer has to source more upfront capital in exchange for greater upside later

Field assumptions:

- 50 MMBO field
- $1 billion Capex
- $10-$20/bbl variable Opex
- $100 ANS West Coast
- NPV-12
- Gross revenue exclusion
- Small producer credit
Current Small Producer

DISCOUNTED AFTER TAX CASH FLOW ($100/bbl ANS)
Under SB21 a midsize producer has to source more upfront capital in exchange for greater upside later

Field assumptions:
- 50 MMBO field
- $1 billion Capex
- $10-$20/bbl variable Opex
- $100 ANS West Coast
- NPV-12
- Gross revenue exclusion
- Small producer credit
Current Large Producer with GRE

DISCOUNTED AFTER TAX CASH FLOW ($100/bbl ANS)
Under SB21 a large producer with gross value exemption has to source more upfront capital in exchange for greater upside later

Field assumptions:

- 50 MMBO field
- $1 billion Capex
- $10-$20/bbl variable Opex
- $100 ANS West Coast
- NPV-12
- Gross revenue exclusion
- Small producer credit
New Field: ACES vs. SB 21/HB 72 Summary

<table>
<thead>
<tr>
<th>Category</th>
<th>Credits &amp; Deductions Lost</th>
<th>Upside Gained</th>
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<tbody>
<tr>
<td>New Entrant</td>
<td>-$92MM</td>
<td>$40,000</td>
</tr>
<tr>
<td>Small Producer</td>
<td>-$66MM</td>
<td>$40,000</td>
</tr>
<tr>
<td>Large Producer w/ GRE</td>
<td>-$13MM</td>
<td>$40,000</td>
</tr>
</tbody>
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- Credits & Deductions Lost
- Upside Gained
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

**Historical CAPEX by Category (CY)**

*2006 includes spending for only 9 months due to PPT effective date of 4/1/2006.*
Fostering New Production: Why Credits Matter

- **Benefits to State**
  - Credits encourage activity
    - 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
SB 21 Closing Thoughts:

- **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
  - Does not simplify tax calculations
    - Complex carried-forward loss calculations
  - Does not strongly motivate additional investment
  - Does not create balance/equities among investors

- **SB 21 / HB 72 Suggestions**
  - Targeted incentives for well related costs
  - Targeted incentives for new facilities (time limited)
  - Redeemable / transferable credits for new projects
  - Expand use of the gross revenue exclusion (legacy fields)
  - Simplify carry-forward loss calculation