House Resources Committee
Testimony re: CS SB 21(FIN) am (efd fld)
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Presentation Overview

- Pioneer at a glance
- Competitive environment
- CS SB 21(FIN) am(efd lfd)
- Incentives for Alaskan investments
- Closing thoughts and ‘wish list’
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
- Nuna project sanction decision 2013
Eagle Ford Operators and Companies

- Abraxas Petroleum
- 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

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
- Gross revenue exclusion (GRE)
- Loss carry-forward monetization
- $5/bbl credit

Negatives:
- Loss of capital credits
- Increased base tax rate
Fostering New Production: Why Credits Matter

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
New Entrant Comparison

Field assumptions:

- 50 MMBO field
- $1 Billion Capex
- $10-$20/bbl variable Opex
- $100 ANS West Coast (Nominal)
- NPV-10

![Bar chart showing comparison between New Entrant SB21 and New Entrant CS SB 21(FIN)am.](chart)

Credits Lost

Upside Gained

-$87MM

-$16MM
Mid-Sized Producer Comparison

Field assumptions:
- 50 MMBO field
- $1 Billion Capex
- $10-$20/bbl variable Opex
- $100 ANS West Coast (Nominal)
- NPV-10

![Comparison Chart]

- SB21: $-52MM
- CS SB 21(FIN)am: $-8MM
- CS SB 21(FIN)am SPC Extended: $6MM

Colors: Red (Credits Lost) and Green (Upside Gained)
CS SB 21(FIN) am(efd fld) Closing Thoughts

- **Pros**
  - 35/5 bbl. keeps tax rate flat across price ranges
  - GRE tax reduction for new oil
  - Loss carry-forward credit monetization
    - Rewards investment in Alaska

- **Cons**
  - Elimination of credits increases investor risk
    - Requires more upfront capital
  - Increased base tax rate

- **CS SB 21(FIN) am(efd fld) ‘wish list’**
  - Extend small producer credit to 2022
    - Adds additional value to projects
  - Increase GRE to 25%
  - Add targeted credits for facilities/well related costs
  - Allow credits to be taken against any payment to the state