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Testimony before the House Resources Committee offered by:

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Representative Ralph Samuels and other members of the House Resources Committee:

Thank you for the opportunity to share Pioneer's views regarding **HB 488**.

Pioneer is a relatively new investor in the State of Alaska and we appreciate the opportunity to participate in this process.

A member of this Committee wisely stated in previous hearings on this matter, that when considering changes to the existing tax system, the Legislature could shoot a little high or shoot a little low, this committee chooses to shoot a little low and leave a vibrant industry left to invest in the State. Pioneer believes that the Committee has missed the mark in the suggested changes to HB 488 that may likely appear in the Committee Substitute.

1. The proposed changes to the tax rate structure and the reduction in the value of the exemption do not create the same investor friendly climate that the administrations' original legislative proposal intended.
2. The progressive tax rate structure fails to take into account the fact that at higher oil prices the investors' costs increase dramatically. In 2005 Pioneer's costs to drill development wells in the lower 48 increased by 50%. Additional cost

increase will be experienced in 2006. The Industry's profit margin does not directly widen with price increase.

3. The 10 extension to the EIC program created by SB 185 is helpful, but in a rather limited way. The 40% credit rate that applies to certain investments translates to an effective credit of closer to 30% due to the exclusive of certain costs that are not eligible for the calculation of credits. A more effective tool to mitigate the effects of the high tax rate would be to increase the credit percentage rate under the PPT, which applies to both exploration as well as development.
4. The offer to buy annually up to \$ 10 MM in credits from each company is helpful, but again, in only a modest way. This would help small explorers, but would not have big impact on those that develop the successful exploration results. Pioneer will spend roughly \$100MM each year for the next two years at Oooguruk alone. 2008 and 2009 will likely see capital investment of roughly \$50MM or more at Oooguruk. This development program, combined with a robust exploration program, will develop credits well in excess of the \$10MM considered by the Committee's purchase proposal. Pioneer's excess credits must be sold into the market at an unknown discount. A standing offer to purchase all available credits at a fixed discount would better ensure Pioneer's ability to timely monetize its earned credits and enjoy more fully their intended benefit. Additionally, an expansion of the pool into which credits could be sold and utilized would be helpful. Specifically, we ask the Committee to consider a modification that would allow the credits to be used to offset any income taxes paid in the State of Alaska. This would expand the pool of potential buyers beyond the oil industry large producers.
5. If the bill must have a progressive tax rate structure and if oil price is used to benchmark rate changes, the price should

include an inflation adjustment to make the real dollar value derived from that price have equivalent purchasing power that exists today. We would also suggest that the trigger points be tied to an ANS West Coast price rather than WTI, to be consistent with proposed Sections 53.55.160(g) and (h) that relate to transitional capital.

Thank you for the opportunity to express Pioneer's views on the proposed changes to HB 488