



PIONEER
NATURAL RESOURCES ALASKA



SB 305 PPT

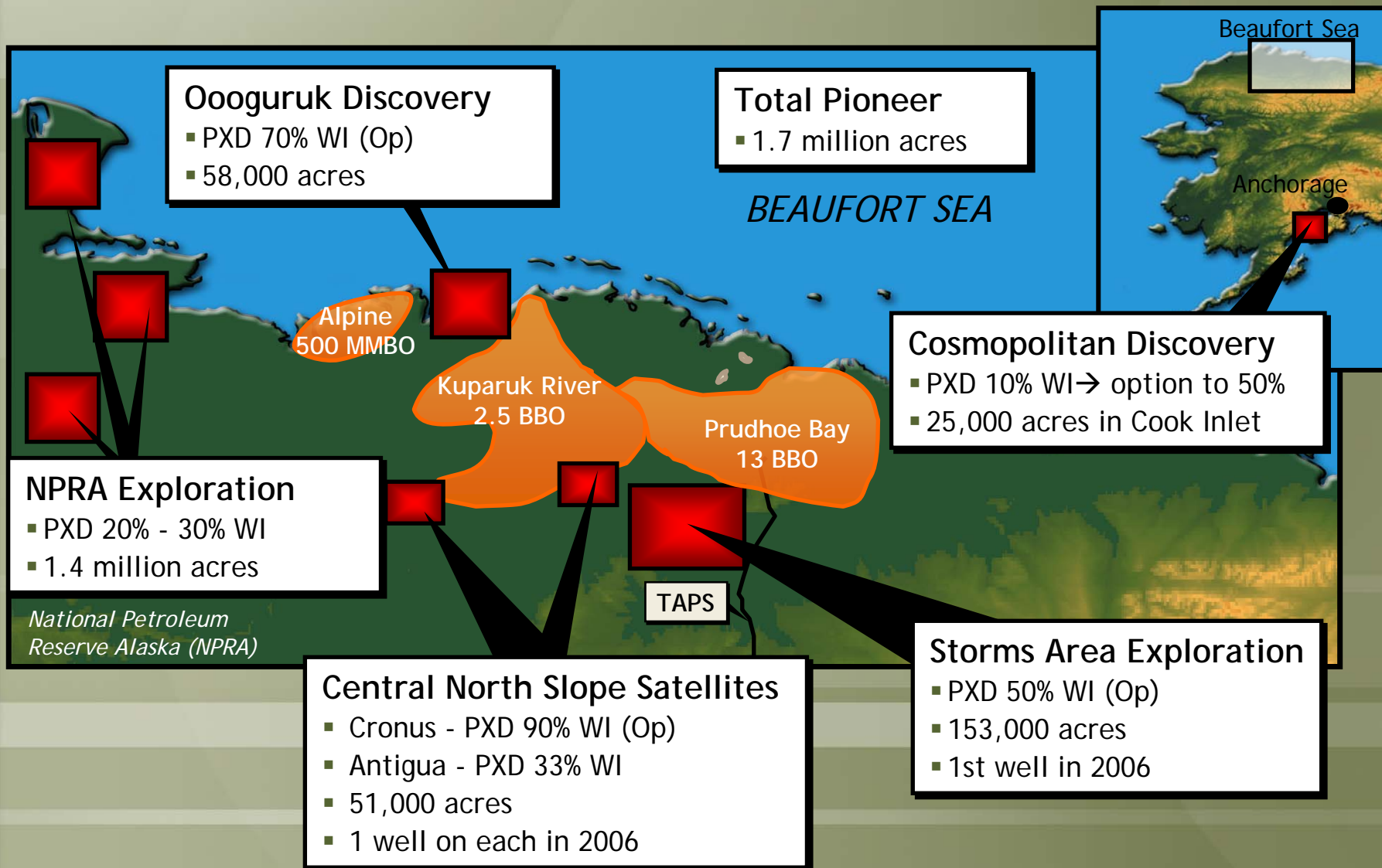
Senate Resources

Committee

Juneau, Alaska

April 7, 2006

Pioneer's Alaska Acreage



Oooguruk Development Project



- Development Cost: \$450 – 525 million
- Reserve Potential: 50 – 90 million bbls
- Peak Flow Rates: 15 – 20,000 bbls per day in 2010

Tie-in to COP
Kuparuk River Facilities



Oooguruk Major Project Construction Components



■ Winter 2006

- Gravel Mining
- Gravel Placement - Drillsite & Onshore Pad



■ Winter 2007

- Flowline Installation
- Facility & Equipment Installation



■ 2008 – 2011

- 38 Well Drilling Program





- **Some of the Highest Costs in the World**
 - Large Minimum Economic Field Size
- **Future Exploration & Development Potential:**
 - Smaller Reservoirs
 - Remote Resources
 - Viscous Oil Resources
 - Gas
- **Long Cycle Times (5 to 10 years)**
- **Investment Uncertainty**
 - Exploration & Reservoir Risk
 - Price Risk
 - Fiscal Certainty



- **Emerging Business Opportunities**
 - Investment Opportunities Offered by Majors
 - Cooperation re: Facility Access

- **Attractive Fiscal Policy**
 - Reasonable Lease Terms & Availability
 - ELF Formula: Low Taxes on all but Largest Fields
 - Exploration Incentive Credits



- **To Attract Most Independents, Alaska must effectively compete with onshore North America Resource Plays**
 - Resource Plays (tight sands, coalbed methane, shales) are attracting huge amounts of capital
 - Lower Risk
 - Lower Cost
 - Shorter Project Cycle Time
 - Lower State Tax

Benefits of Administration's PPT Proposal



- **Balanced Tax/Credit Rate of 20/20**
- **Fair Principles**
 - Tax Based Upon Profits
 - Compensation for Transition Capital
- **\$73MM Exemption Mitigates New Entrant Challenges**
- **Tradable Credits allow Quick Monetization**
- **Modest Incentives for Exploration, New Investors**
- **Reduces Minimum Economic Field Size**

We believe the proposal would encourage new investment in Alaska, grow the resource pie and increase revenues to the State



- **20% Rate Reasonably Balanced w/ 20% Credit**
- **If Rate is Higher it must be Balanced w/ Equal Credits**
 - Credit must apply to both Exploration & Development
 - Rate / Credit Balance is Affected by Price & Production
- **Higher Tax Rate:**
 - Reduces Incentive to Invest
 - Raises Investment Threshold
 - Fewer Exploration Wells Drilled
 - Marginal Resources Left Undeveloped



- **Increasing Oil Prices Lead to Increasing Costs**
 - 2005 W. Texas Drilling Costs Increased ~50%
 - Steel prices more than doubled in 2 years
 - Costs for all Services Escalating Rapidly
- **Profits not Directly Proportional to Oil Price Increase**
- **If Enacted, Progressive Tax Rate**
 - Should be Profits Based
 - Fairness Issue
 - Different basis is un-necessarily complex
 - Trigger Price Should be:
 - At a level equal to today's price environment (\$60)
 - Based on ANS Posting (vs WTI)
 - Indexed for Inflation

5,000 BBL “Start-up” Exemption



- **New Entrant Challenges**
 - New Entrants do not hold Existing Infrastructure
 - Smaller Investors lack Operating Economies of Scale
 - Most New Investment Opportunities are Challenged
- **Exemption Mitigates High Alaska Start-up Costs**
 - Local, Highly Skilled Technical Employees Required
 - Requires Building an Expensive G&G Database
 - Companies w/ AK Employees Pay Income Tax w/o Revenue
- **Exemption Sunset is not Fair or Practical**
 - Discovery to Production cycle time is 5 – 10 years
- **Phase out of Credit/Exemption is Discriminatory**

We believe “Start-up” Exemptions will bring in new investors and give them a better chance to succeed.



- **Tax Credit Value is Diminished to New Investor**
 - Held Credits diminish through time value of \$
 - Sold Credits would likely sell at a discount
 - Discount value captured by purchaser
 - Credit Cost to State remains 100%

- **“Refundable” Credits Increase Value to New Investor**

- **Pioneer’s Investments Will Generate Substantial Credits**
 - Consider a State Cash Refund at Higher Oil Prices



- **Fairness Issue**
 - Investments were made under ELF System
 - Tax System is changing
 - Pioneer has recouped nothing from production
- **Pioneer's Alaskan Investment Began in 2003**
- **Pioneer's Cumulative Investment Over \$100MM**
- **Transition Capital Look-Back is Appropriate**
- **Look-Back w/ 2:1 Future Requirement is OK**

Pioneer Key Messages



- **Pioneer Goal: Establish Alaska as Core Producing Area**
- **Priorities for State of Alaska:**
 - Provide Incentives to Convert Resources to Revenue
 - Attract New Investment
 - Effectively Compete w/ North America Onshore
- **Administration's 20/20 Proposal is Balanced & Fair**
- **Higher Tax Rates will Discourage Needed Investment**
- **Progressivity, if Enacted, Should be Structured Fairly**
- **“Start Up” Credits will Encourage New Entrants**
- **Refundable Credits are an Incentive to New Entrants**
- **Transition Capital Look-Back is Appropriate**
- **New Concern: Impact of Facility Access Fees on PPT ???**