

PIONEER

NATURAL RESOURCES

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March 22, 2012

Senator Bert Stedman
Co-chair, Senate Resources Committee
State Capitol, Suite 516
Juneau, AK 99801

Dear Senator Stedman,

Thank you for the invitation to provide comments on the Committee Substitute to Senate Bill 192, which represents the Senate's effort to address deficiencies in the progressivity feature of Alaska's production tax system among other items in this legislation. Please consider this letter the official comments of Pioneer Natural Resources to the Senate Finance Committee.

Alaska has been and continues to be an important part of Pioneer's overall portfolio. As you may recall, Pioneer entered the Alaska market in 2002 and became the first independent operator on the North Slope in 2008 when production commenced from the company's Oooguruk Development Project. The project has created hundreds of good-paying jobs, new infrastructure, new royalty revenue for the State and new oil through the Trans Alaska Pipeline System.

But times have changed since our entry into Alaska. Alaska has lost its competitive position compared to the low-risk, high-margin projects across the United States not burdened by many of the geographical, logistical, climate and financial challenges present in Alaska. In fact, the Senate Majority Coalition's consultants, PFC Energy, noted in their presentation to your Committee on March 15, 2012 the following: "Costs are significantly higher in Alaska than the Lower 48 – even compared to unconventional. Meanwhile, Alaska's Government Take has risen significantly over recent years, meaning new project economics can be very challenging." This statement rings especially true in Pioneer's case where any potential expansion of Oooguruk or development of challenging exploration projects must compete with our alternatives in the Permian Basin and Eagle Ford Shale.

Pioneer has supported significant and meaningful production tax reform since the adoption of Alaska's Clear and Equitable Share, or 'ACES' as it is commonly known. Our stance remains the same today. While some features of the current tax law are attractive, it's our opinion the progressivity feature is broken and has caused a chilling effect on the type of industry investment that ultimately produces more oil. Again we quote PFC Energy from the same presentation: "ACES inhibits the development of new projects and resources that might help stem or even reverse the decline." Pioneer does not believe the current proposed change to progressivity, as presented in the current Committee Substitute, is meaningful enough to change investment behavior. We do support bracketing progressivity as it has been proposed in HB 110 and conceptual amendments by Sen. McGuire. Bracketing has broad support by industry and Alaskans alike and we believe represents "meaningful change" to the severance tax.

We encourage the Alaska State Legislature to create a more competitive environment to attract new capital investment. Amendments to ACES should focus on incentivizing as broad an array of investors and projects as possible. Such a fiscal environment would cultivate the investment needed to increase North Slope production. Unfortunately, the current committee substitute does not achieve this goal. For example, according to PFC energy the impact of the proposed allowance for new oil, while an admirable concept, is "almost undetectable" even under aggressive scenarios. While Pioneer understands this concept is still in a working phase, we support Sen. Waggoner's approach as presented in the Senate Resources Committee.

The Senate Finance Committee recently heard public testimony from a wide array of Alaskans on SB 192. Of those that participated, more than 83 percent opposed this bill in its current form. Pioneer joins those Alaskans and does not support Committee Substitute for Senate Bill 192. The bill as drafted requires substantial changes in order to reach the best outcome for the state.

Pioneer appreciates all the work the Senate Finance Committee has done to date and we look forward to working with you further on this endeavor.

Sincerely,

A handwritten signature in black ink, appearing to read "Todd Abbott", with a stylized flourish at the end.

Todd Abbott
President
Pioneer Natural Resources Alaska, Inc.