6 April 2012

The Honorable Bert Stedman, Co-Chair
The Honorable Lyman Hoffman, Co-Chair
Alaska State Senate Finance Committee

Testimony of Mr. Todd Abbott, President, Pioneer Natural Resources Alaska, Inc.

Re: Work-Draft “U” of CSSB 192(FIN)

Co-chairman Stedman, Co-Chairman Hoffman and Members of the Senate Finance Committee, good afternoon. For the record my name is Todd Abbott and I am the president of Pioneer Natural Resources Alaska, Inc.

Thank you for the invitation to provide comments on the Committee Substitute to Senate Bill 192 version “U.” But, first let me say thank you to this committee, your staff and your consultants for what has been a considerable amount of time and effort. We at Pioneer appreciate your service and your commitment to reforming Alaska’s petroleum severance tax. I understand it’s been a long couple of weeks and a very long day of testimony so I will keep my comments brief.

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. We then became the first independent operator on the North Slope in 2008 when production commenced from our 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 TAPS.

But things 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 that are present in Alaska.

It’s my charge to grow Pioneer’s Alaska business unit. But, like the other companies you’ve also heard from today, Pioneer has a large inventory of opportunities in the Lower 48. These projects are easier to
execute and bear a significantly lower tax burden. As a result, for 2012 Pioneer is investing $2.1 billion in Texas versus $135 million in Alaska. Why?

The cost and logistics of finding, developing and producing North Slope projects puts them at an immediate disadvantage. Our current tax system, as well as today’s version, widens that gap even further. And, Alaska’s disadvantage grows even more as oil prices increase and progressivity further increases the disparity.

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 unconventionals. 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 wells have to compete with our aforementioned Lower 48 opportunities.

Mr, Chairman, with regard to the current version before us, it’s Pioneer’s belief that the gross progressivity features are counterproductive to the goal of increasing production. The three-tiered progressivity system while making some reductions in government take and providing for a reward for ‘new oil’ does not move the needle in a meaningful manner and ultimately does not make Alaska competitive with other domestic alternatives. We believe this type of tax system discourages investment in the higher cost, more difficult opportunities that remain on the North Slope and therefore lowers the probability of new fields coming online.

Pioneer has supported significant and meaningful production tax reform since the adoption of ‘ACES.’ Our stance remains the same today. While some features of the current tax law are attractive, it’s our opinion the progressivity feature remains broken. Pioneer does not believe the current proposed changes to progressivity, as presented in the current Committee Substitute, are meaningful enough to change investment behavior for many of same reasons you heard here today.

We encourage this committee and the Legislature to create a more competitive environment to aid us in bringing new capital investment to Alaska. Amendments to ACES, or any new structure, should focus on
as broad an array of investors and projects as possible. Such a fiscal environment would cultivate the investment needed, in core and new fields alike, to increase North Slope production.

Again, Pioneer appreciates all the work the Senate Finance Committee has done to date, and I’m happy to entertain any questions the committee may have. Thank you.