



**PIONEER**  
NATURAL RESOURCES

# Pioneer's View of ACES

Senate Resources Committee  
October 23, 2007

NYSE: PXD  
[www.pxd.com](http://www.pxd.com)



# Presentation Outline



PIONEER

- Pioneer Profile
- Competition for Investment Capital
- Pioneer Projects & SOA Impact
- SOA "Fair Share" of Oooguruk
- Benefits of Current PPT Law
- ACES Proposal
- Conclusions





- Global Investment Opportunities compete for capital
  - Pioneer and most independents prefer U.S. L48 projects:
    - lower risk, cost
    - shorter cycle time
    - flexibility
  - Portfolio selection drivers:
    - Production Growth
    - Reserve Replacement
    - Finding & Development cost
    - Economic & Financial metrics
  - Project economics evaluated over a range
    - probabilistic outcomes
    - commodity price calls

- Rising commodity prices have improved margins in L48:
  - Budget dollars flowing to low risk resource plays
    - Tight sands, coal bed methane, shale gas
  - Less emphasis on high risk exploration
- Pioneer Alaska's Competition for Capital
  - Low risk, short cycle projects in Texas and Rockies
  - Low risk, high margin gas project in South Africa
  - High margin, short cycle oil drilling in Tunisia
  - New ventures in Resource Plays

# Pioneer's Alaska Entry



PIONEER

## Strengths

- Prolific petroleum system
- High impact opportunities
- Located in North America
- ELF and EIC's

## Weaknesses

- High operations & transport cost
- Infrastructure challenged
- Long project cycle times
- Complex regulatory processes
- Limited season for access

## Opportunities

- Business opportunities opening for Independents
- Improving regulatory process
- North Slope gas resources

## Threats

- Higher taxes
- Regulatory delays or costs
- Project delays or cost overruns
- Return to lower oil prices

- Entered Alaska in late 2002
- Oooguruk Unit Operator
- Cosmopolitan Unit Operator
- ~1.5 million acre leasehold
- 11 NS exploration wells
- 35 local Alaska staff

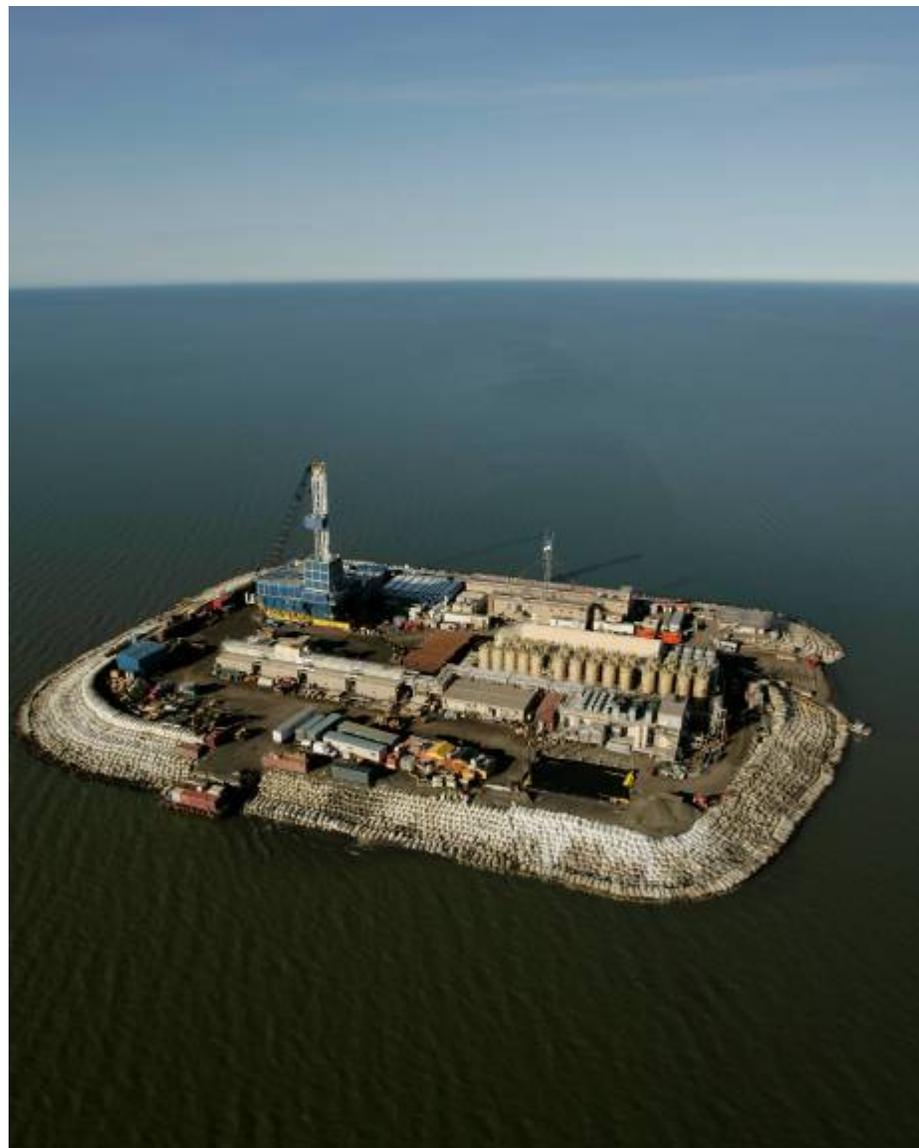
Cosmopolitan



# Oooguruk Project Summary

## Future Operating Statistics

<b>Field Life Cycle</b>	<b>Development</b>
<b>Project Type</b>	<b>Oil, EOR</b>
<b>Gross Acres</b>	<b>58,000</b>
<b>Working Interest</b>	<b>70% (Operator)</b>
<b>Partner</b>	<b>ENI (30%)</b>
<b>Gross Reserve Potential</b>	<b>70 - 90 MMBO</b>
<b>First Production</b>	<b>2008</b>
<b>Gross Peak Flow Rates</b>	<b>15 - 20 MBOPD</b>
<b>Productive Life</b>	<b>25+ Years</b>
<b>Development Wells</b>	<b>~40</b>

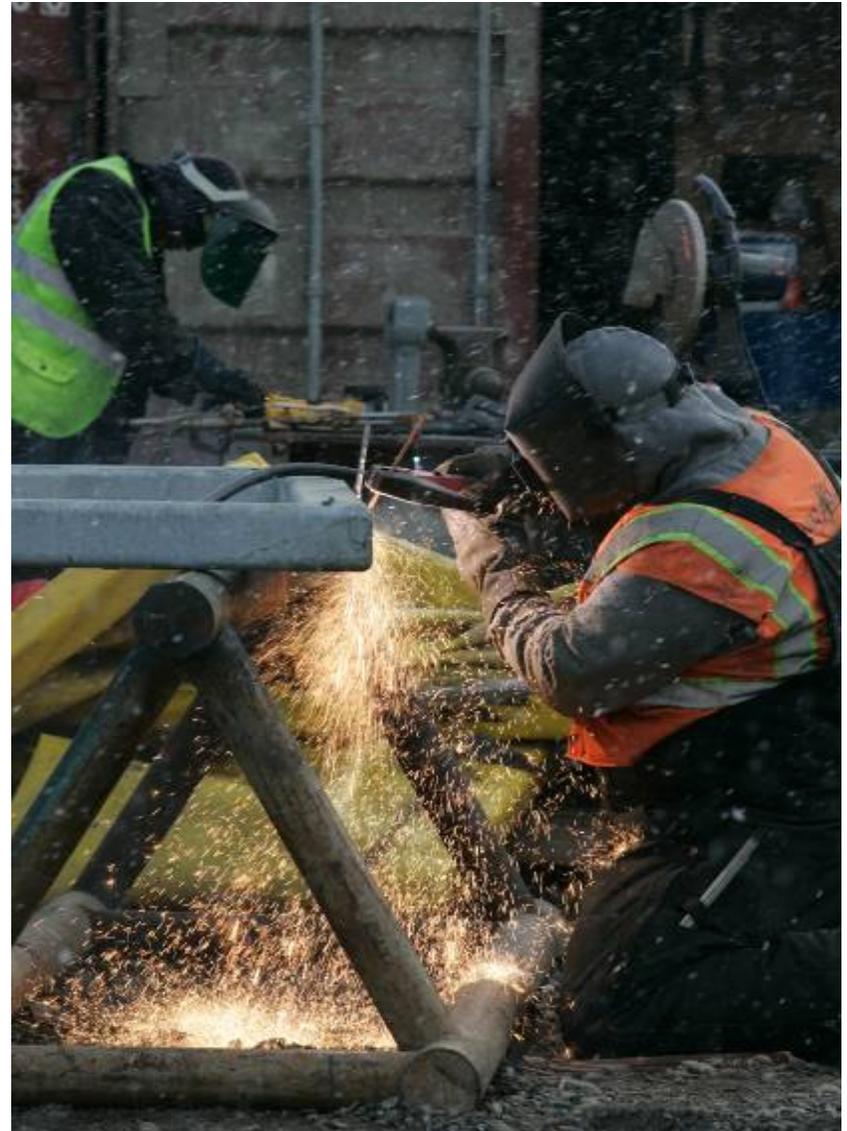


# Oooguruk Project Summary



PIONEER

- Project sanction Feb 2006
- Constructed island drill site
- Fab/set ~120 modules
- Installed subsea flowline
- 3 year development drilling
- 600+ contractors at peak
- Total capex \$550+ MM
- **First oil in 2008**

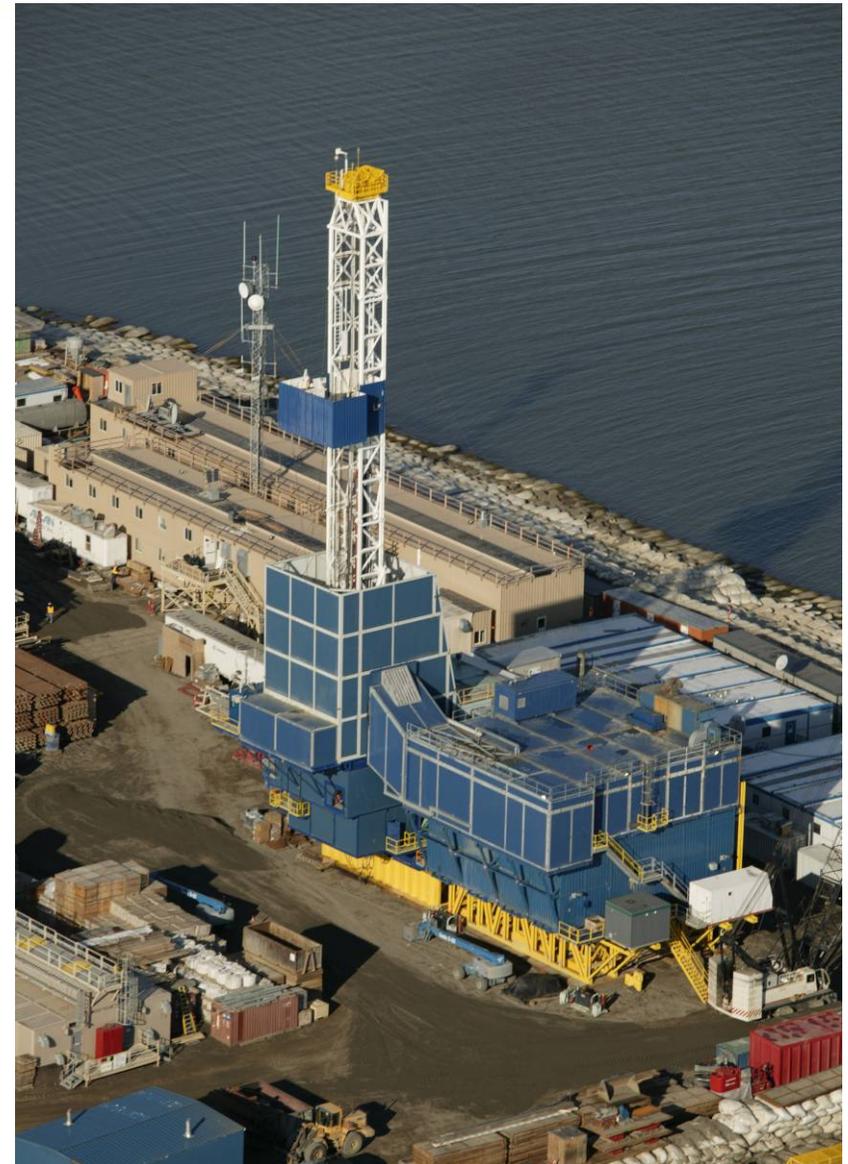


# Oooguruk Project Benefits



PIONEER

- First independent oil producer on the North Slope
- First third party facility access
- Other investors are watching for Pioneer success
- Royalty plus 30% net profits to SOA
- PPT revenues on Pioneer profits and KRU processing
- State income tax
- Property taxes to NSB
- Construction jobs and contractor profits
- Operating jobs and contractor profits



# Oooguruk Capital Expenditure Beneficiaries



PIONEER

Engineering	Fabrication	Transport	Installation	Drilling
ASRC/ Tri-Ocean	ASRC	Lynden	Nanuq	Nabors
Intec	ASRC/Omega	Carlisle	HC Price	Halliburton
Sandwell	Steel Fab	Tote	Veco	Baker Centrilift
Coastal Frontiers	Dowland-Bach	Penn Air	ASRC	
EEIS		Alaska Airlines	F&W	

- PPT rolled out with no Pioneer consultation
  - Huge investments and Oooguruk sanction prior to PPT
- Balanced system - Investment credits offset high tax rate
- Modest incentive for investment
  - Encourages development of abundant lower tier resources
    - Challenged by size, quality, viscosity or location
  - Encourages more aggressive exploration spending
- Sustainable and fair across a broad range of investments
- PPT should grow the pie and give the State a bigger slice

# ACES Erodes Modest PPT Incentives



PIONEER

- Changes are mostly negative for the investor
  - Base Tax Rate Increase from 22.5% to 25%
  - Tax Rate Increase via more aggressive Progressivity Formula
  - Transitional Investment Expenditures Eliminated
    - Unfair to Pioneer - no recovery of \$100MM sunk investment
  - Spreads utilization of Earned Tax Credits over 2 years
  - Increased uncertainty for allowable deductions
- Increased government take jeopardizes lower tier project funding
  - Unfunded projects generate no state income
- Ooguruk project returns reduced
  - Ooguruk highest government take in the State (net profit)
- Positive Elements
  - Retains net tax framework for non-legacy fields
  - Allows credits to be monetized at face value (with time delay)

## Project Net Present Value of Cash Flows (10% Discount Rate)

\$40 Test Price (\$ Millions)

	Status Quo PPT	ACES Plan	16% Gross Tax <i>No Capital Credits</i>	19% Gross Tax <i>With Capital Credits</i>
Field/Project A	178	128	-35	27
Field/Project B	72	48	-22	9
Field/Project C	59	27	-53	-22
Field/Project D	-64	-90	-398	-282
<i>Production Tax Revenues FY2008 @ \$60 oil price</i>	\$1.3B	\$2.0B	\$2.1B	\$2.0B



Source: Alaska Department of Revenue

- Pioneer AK's primary competition for capital is L48
- Pioneer has been an aggressive investor to date
- Fiscal stability needed to attract future Pioneer capital
- PPT provides balance/stability to grow our AK business
- ACES plan erodes modest PPT incentives
- Raising taxes jeopardizes lower tier project funding
  - Royalty, state income/property tax and jobs at risk

# Back Up Slides



PIONEER

# Oooguruk Pipeline Operations



PIONEER



# Oooguruk Island - Ready to Drill



PIONEER

