Before the Subcommittee on Oversight and Investigations

Committee on Energy and Commerce

U.S. House of Representatives

Testimony of Scott D. Sheffield

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Chair DeGette, Ranking Member Griffith, and distinguished members of the subcommittee:

Thank you for the opportunity to discuss the important topic of the role of U.S. energy producers in providing reliable, low-cost energy to American families, and the increased supply challenges resulting from the Russian invasion of Ukraine.

Let me start by saying that I am keenly aware of the suffering of the Ukrainian people, including several of my relatives who reside in Kyiv, for whom I pray every day. While I am encouraged by the resolve of the Ukrainian people, the daily loss of innocent lives sickens me. I was among the first CEOs to publicly support a U.S. response to Russia's aggression in Ukraine. Pioneer and its employees have pledged over $20 million for humanitarian needs. But Pioneer and other U.S. oil and gas companies are doing much more to help Ukraine and to protect the United States. The oil and natural gas we produce have proved to be a geopolitical asset for the United States. It is also the critical offset to Russian gas in Europe. Without U.S. natural gas — delivered as LNG — Europe would have even greater difficulty standing up to Russia.

I offer you my perspective today as a petroleum engineer with more than 45 years of experience, including over 30 years as CEO of Pioneer Natural Resources Company and its predecessor company.

Pioneer operates exclusively on private lands in the Permian Basin in West Texas, where we employ a work force of around 1,900 hardworking men and women. Over the past decade, Pioneer invested $45 billion, inclusive of acquisitions, to almost quadruple our production, from 158 thousand barrels of oil equivalent per day in 2012 to 617 thousand barrels of oil equivalent per day in 2021.

Pioneer is solely an upstream company. Our production of oil, natural gas liquids, and natural gas is purchased by refiners, manufacturers, and utilities—Pioneer does not refine its oil and gas commodities, produce gasoline, or operate retail gasoline stations. Pioneer is a "price-taker." We do not set the sales prices of our products. Rather, our oil and other commodities are sold based on index prices determined by international supply and demand fundamentals and global markets.

Technical innovations in horizontal drilling and hydraulic fracturing, combined with the advantages of private ownership and development of mineral resources, have enabled the United States to achieve a level of energy security once thought unattainable. While domestic conventional production continued to decline over the past decade, new U.S. shale production added over 8 million barrels of oil per day and over 90 billion cubic feet of natural gas per day.

This period of unparalleled growth—often called the U.S. shale revolution—created a tremendous number of new, high-paying American jobs; dramatically reduced energy costs for American families, especially benefitting lower-income Americans; significantly reduced U.S. greenhouse gas emissions, in large part by enabling the transition of electricity generation from coal to natural gas; and diminished U.S. dependence on foreign sources of supply, thereby strengthening U.S. national security. Just imagine what the price of oil would be today without shale oil growth adding over 8 million barrels per day to domestic oil production. Had this growth not happened, these 8 million barrels per day would have come from foreign nations, weakening our economy and our national energy security. I'm proud of the energy growth provided by our industry and the benefits it has provided over the past decade.

Past shale production growth, however, rested on what proved to be a destructive financial model. As a whole, the shale industry consistently outspent its operating cash flow and routinely relied on equity and debt offerings to fund production growth. Consumers benefitted from the resulting lower energy prices, but for producers, the growing supplies frequently outpaced global demand and as a result, volatility in oil prices significantly increased.

Challenged by the growth of U.S. shale oil production, national oil companies in Saudi Arabia, Russia and other OPEC+ member countries chose to compete for market share based on price, with none wanting to cut production. Russia was especially motivated to cripple U.S. producers and weaken U.S. energy security. As a result, the industry's returns were dismal. Returns for exploration and production companies have significantly trailed those for the average S&P 500 company over the last decade. Likewise, returns on capital employed for our industry, which

were negative during many years of commodity price downturns, placed the industry at the bottom of the S&P 500 in industry sector performance since 2015.

Over the past 15 years, the world experienced three major oil price downturns—in 2009, 2014 and 2020—with devastating financial results that led to significant job losses for hardworking Americans. Remember, less than two years ago the benchmark price for West Texas Intermediate oil stood well below $40 per barrel, and actually turned negative for a period of time. Since 2015, hundreds of U.S. oil and gas producers, oilfield services providers, and midstream companies have filed for bankruptcies, involving hundreds of billions in debt.

Excessive drilling, low returns, and volatile commodity prices, combined with pressures to divest fossil fuel holdings, caused many investors to reduce or eliminate their equity holdings in energy companies over the past decade. The industry fell from representing 12% of the combined market value of the S&P 500 companies in 2011 to less than 4% today. It became abundantly clear that if the industry were to survive, the model of "production growth at any cost" needed to change. The investment community—especially the mutual, index, and pension funds that represent the retirement funds of millions of Americans—demanded a shift in the model to evolve to one of improved returns, sustainable growth, and financial discipline. Ultimately, this has resulted in a model that generates returns more consistent with other industry sectors within the S&P 500. In order to survive, the industry now approaches development of shale resources similarly to many of America's leading manufacturing companies—that is, in a more disciplined and sustainable manner, focused on long-term growth and building the financial strength to navigate economic cycles.

Pioneer is currently the most active driller and largest oil producer in the Permian Basin. In 2022, we expect to spend between $3.3 to $3.6 billion on capital expenditures to operate around 22 drilling rigs. We expect to place almost 500 new wells on production, with those new wells contributing more than 50 million gross barrels of oil to the market in 2022. And the story is similar across the oil patch, with the United States quickly approaching record levels of oil and natural gas production.

As a result of the significant ongoing investment by Pioneer and other operators, the Permian Basin is the only growing oil shale basin and produces the second largest volume of natural gas in the United States. Permian Basin production grew from 1.2 million barrels of oil per day and 5 billion cubic feet of natural gas per day in 2012 to an all-time high last month of over 5 million barrels of oil per day and over 20 billion cubic feet of natural gas per day. We estimate that production will grow to 8 million barrels of oil per day and 35 billion cubic feet of natural gas per day by 2030. Liquefied natural gas originating from the Permian Basin will be the best source to displace Russian natural gas in Europe, improving energy security of the free world.

Even before Russia's invasion of Ukraine, the world faced an inflationary environment in oil and natural gas. Rising costs and prices are the natural result of increased demand from improving economic conditions post-pandemic. These pressures were exacerbated by the global reduction in new supplies due to declining energy investments around the world, which were over $1 trillion less from 2015 to 2021 than from 2009 to 2014. Longer-term concerns related to oil demand, combined with a shift in capital to renewable energy investments, have resulted in

operators eliminating large, multi-year capital intensive development and exploration projects. The war in Ukraine has led to the boycotting of Russian energy supplies by many countries and companies, which is adding considerable stress to an already tight market.

I understand the desire to find a quick fix for the recent spike in gasoline prices, but neither Pioneer nor any other U.S. producer can increase production overnight by turning on a tap. Pioneer and other U.S. shale operators sell their commodities when produced. We do not have spare production capacity or a private strategic reserve with which to quickly increase oil deliveries in response to market disruptions. Such a response is only possible in countries such as Saudi Arabia and the United Arab Emirates, whose national oil companies can quickly add production to the world market from surplus supply capacity that exists today. In contrast, the process of planning, permitting, drilling, and safely completing new wells, with the associated construction of facilities and connection to third-party infrastructure, takes 18 to 24 months for our company. It used to take less time in the past—in some instances only 6 to 12 months—but this timing is especially negatively impacted today, in the midst of increasing cost inflation, the loss of thousands of experienced oil field workers over the past several years, the decommissioning of rigs and frac fleets when oil prices were low in 2020, and significant shortages across our supply chain. Finally, our companies have to spend significant capital just to offset existing well declines, while capital availability to the industry is severely impaired.

It is important to emphasize that increased U.S. production *will* occur in 2022 and beyond, which will help offset Russian oil coming off the market. For example, Pioneer plans to grow oil production over the long term by approximately 5% per year. A reliable indicator of market

sentiment, the oil futures curve, which reflects the current prices that buyers are willing to pay for future deliveries of oil, declines by more than $25 a barrel over the next five years. That decline reflects the market's view that supply constraints will not linger and that current high prices will abate.

In the face of Russia's destabilizing aggression, now is the time for a bold, bipartisan "all-of-the-above" approach to achieving domestic energy security. This approach requires a combined effort to support the transition to renewable energy, including nuclear power and domestic production of minerals and materials for batteries, while concurrently improving our nation's infrastructure and strengthening the ability of U.S. operators to responsibly produce the fossil fuels that will be critical to maintaining the world's economies and way of life during the transition period. Among the most important steps will be facilitating construction of the pipelines and liquefied natural gas infrastructure required for domestic transportation and export. And, at the same time oil production increases, companies like Pioneer are committing to measurable goals in reductions in greenhouse gas and methane emissions intensity in response to climate change initiatives, making our production among the cleanest in the world.

I will finish by observing that during much of my life I saw U.S. energy security—and our economic well-being—put at risk due to the energy dominance of OPEC members, Russia and other oil producing countries. This changed over the last decade as a result of the U.S. shale revolution. I don't want to see my grandchildren suffer the same fate by actions taken to weaken the U.S. oil and gas industry or to create new dependence on China and other foreign countries for the batteries, solar panels, wind turbines and rare earth minerals that we will require as we

make steady progress in our transition to a lower carbon economy. That is why I feel so strongly that an "all-of-the-above" strategy is needed to maintain affordable energy for the free world and energy security for the benefit of future generations of Americans.

Thank you for the opportunity to share my perspective.