PIONEER NATURAL RESOURCES CO
Form 10-Q
November 04, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2014

or

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________

Commission File Number: 1-13245

PIONEER NATURAL RESOURCES COMPANY
(Exact name of Registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	75-2702753 (I.R.S. Employer Identification No.)
5205 N. O'Connor Blvd., Suite 200, Irving, Texas (Address of principal executive offices)	75039 (Zip Code)

(972) 444-9001
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ý No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No ý

Number of shares of Common Stock outstanding as of October 30, 2014	143,147,890

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PIONEER NATURAL RESOURCES COMPANY

Cautionary Statement Concerning Forward-Looking Statements

The information in this Quarterly Report on Form 10-Q (the "Report") contains forward-looking statements that involve risks and uncertainties. When used in this document, the words "believes," "plans," "expects," "anticipates," "forecasts," "intends," "continue," "may," "will," "could," "should," "future," "potential," "estimate" or the negative of such terms and similar expressions as they relate to Pioneer Natural Resources Company ("Pioneer" or the "Company") are intended to identify forward-looking statements. The forward-looking statements are based on the Company's current expectations, assumptions, estimates and projections about the Company and the industry in which the Company operates. Although the Company believes that the expectations and assumptions reflected in the forward-looking statements are reasonable as and when made, they involve risks and uncertainties that are difficult to predict and, in many cases, beyond the Company's control.

These risks and uncertainties include, among other things, volatility of commodity prices, product supply and demand, competition, the ability to obtain environmental and other permits and the timing thereof, other government regulation or action, the ability to obtain approvals from third parties and negotiate agreements with third parties on mutually acceptable terms, completion of planned divestitures, litigation, the costs and results of drilling and operations, availability of equipment, services, resources and personnel required to perform the Company's drilling and operating activities, access to and availability of transportation, processing, fractionation and refining facilities, Pioneer's ability to replace reserves, implement its business plans or complete its development activities as scheduled, access to and cost of capital, the financial strength of counterparties to Pioneer's credit facility and derivative contracts and the purchasers of Pioneer's oil, NGL and gas production, uncertainties about estimates of reserves and the ability to add proved reserves in the future, the assumptions underlying production forecasts, quality of technical data, environmental and weather risks, including the possible impacts of climate change, the risks associated with the ownership and operation of the Company's industrial sand mining and oilfield services businesses, and acts of war or terrorism. These and other risks are described in the Company's Annual Report on Form 10-K, this and other Quarterly Reports on Form 10-Q and other filings with the United States Securities and Exchange Commission. In addition, the Company may be subject to currently unforeseen risks that may have a materially adverse effect on it. Accordingly, no assurances can be given that the actual events and results will not be materially different than the anticipated results described in the forward-looking statements. See "Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations," "Part 1, Item 3. Quantitative and Qualitative Disclosures About Market Risk" and "Part II, Item 1A. Risk Factors" in this Report and "Part I, Item 1. Business — Competition, Markets and Regulations," "Part I, Item 1A. Risk Factors," "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for a description of various factors that could materially affect the ability of Pioneer to achieve the anticipated results described in the forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. The Company undertakes no duty to publicly update these statements except as required by law.

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Definitions of Certain Terms and Conventions Used Herein

Within this Report, the following terms and conventions have specific meanings:

- "BBL" means a standard barrel containing 42 United States gallons.
- "BOE" means a barrel of oil equivalent and is a standard convention used to express oil and gas volumes on a comparable oil equivalent basis. Gas equivalents are determined under the relative energy content method by using the ratio of six thousand cubic feet of gas to one BBL of oil or natural gas liquid.
- "BOEPD" means BOE per day.
- "BTU" means British thermal unit, which is a measure of the amount of energy required to raise the temperature of one pound of water one degree Fahrenheit.
- "Conway" means the daily average natural gas liquids components as priced in Oil Price Information Service ("OPIS") in the table "U.S. and Canada LP – Gas Weekly Averages" at Conway, Kansas.
- "DD&A" means depletion, depreciation and amortization.
- "GAAP" means accounting principles that are generally accepted in the United States of America.
- "LIBOR" means London Interbank Offered Rate, which is a market rate of interest.
- "MCF" means one thousand cubic feet and is a measure of gas volume.
- "MMBTU" means one million BTUs.
- "Mont Belvieu" means the daily average natural gas liquids components as priced in OPIS in the table "U.S. and Canada LP – Gas Weekly Averages" at Mont Belvieu, Texas.
- "NGL" means natural gas liquid.
- "NYMEX" means the New York Mercantile Exchange.
- "Pioneer" or the "Company" means Pioneer Natural Resources Company and its subsidiaries.
- "Pioneer Southwest" means Pioneer Southwest Energy Partners L.P. and its subsidiaries.
- "Proved reserves" mean the quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project within a reasonable time.

(i) The area of the reservoir considered as proved includes: (A) The area identified by drilling and limited by fluid contacts, if any, and (B) Adjacent undrilled portions of the reservoir that can, with reasonable certainty, be judged to be continuous with it and to contain economically producible oil or gas on the basis of available geoscience and engineering data.

(ii) In the absence of data on fluid contacts, proved quantities in a reservoir are limited by the lowest known hydrocarbons ("LKH") as seen in a well penetration unless geoscience, engineering, or performance data and reliable technology establishes a lower contact with reasonable certainty.

(iii) Where direct observation from well penetrations has defined a highest known oil ("HKO") elevation and the potential exists for an associated gas cap, proved oil reserves may be assigned in the structurally higher portions of the reservoir only if geoscience, engineering, or performance data and reliable technology establish the higher contact with reasonable certainty.

(iv) Reserves which can be produced economically through application of improved recovery techniques (including, but not limited to, fluid injection) are included in the proved classification when: (A) Successful testing by a pilot project in an area of the reservoir with properties no more favorable than in the reservoir as a whole, the operation of an installed program in the reservoir or an analogous reservoir, or other evidence using reliable technology establishes the reasonable certainty of the engineering analysis on which the project or program was based; and (B) The project has been approved for development by all necessary parties and entities, including governmental entities.

(v) Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined. The price shall be the average during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

- "U.S." means United States.
- With respect to information on the working interest in wells, drilling locations and acreage, "net" wells, drilling locations and acres are determined by multiplying "gross" wells, drilling locations and acres by the Company's working interest in such wells, drilling locations or acres. Unless otherwise specified, wells, drilling locations and acreage statistics quoted herein represent gross wells, drilling locations or acres.
- Unless otherwise indicated, all currency amounts are expressed in U.S. dollars.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED BALANCE SHEETS
(in millions)

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$550	$393
Accounts receivable:		
Trade, net	483	431
Due from affiliates	7	3
Income taxes receivable	22	5
Inventories	237	220
Prepaid expenses	23	16
Deferred income taxes	2	—
Assets held for sale	—	584
Other current assets:		
Derivatives	128	76
Other	39	2
Total current assets	1,491	1,730
Property, plant and equipment, at cost:		
Oil and gas properties, using the successful efforts method of accounting:		
Proved properties	14,856	13,406
Unproved properties	154	123
Accumulated depletion, depreciation and amortization	(5,183)	(4,903)
Total property, plant and equipment	9,827	8,626
Goodwill	272	274
Other property and equipment, net	1,303	1,224
Other assets:		
Investment in unconsolidated affiliate	221	225
Derivatives	57	91
Other, net	101	124
	$13,272	$12,294

The financial information included as of September 30, 2014 has been prepared by management without audit by independent registered public accountants.
The accompanying notes are an integral part of these consolidated financial statements.

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PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED BALANCE SHEETS (continued)
(in millions)

	September 30, 2014 (Unaudited)	December 31, 2013
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable:		
Trade	$1,228	$910
Due to affiliates	102	150
Interest payable	36	62
Income taxes payable	1	—
Deferred income taxes	—	19
Liabilities held for sale	—	39
Other current liabilities:		
Derivatives	1	12
Other	71	58
Total current liabilities	1,439	1,250
Long-term debt	2,662	2,653
Derivatives	—	10
Deferred income taxes	1,734	1,473
Other liabilities	284	293
Equity:		
Common stock, $.01 par value; 500 million shares authorized; 146 million shares issued as of September 30, 2014 and December 31, 2013, respectively	1	1
Additional paid-in capital	5,162	5,080
Treasury stock at cost: 3 million shares as of September 30, 2014 and December 31, 2013, respectively	(170)	(144)
Retained earnings	2,152	1,665
Total equity attributable to common stockholders	7,145	6,602
Noncontrolling interests in consolidating subsidiaries	8	13
Total equity	7,153	6,615
Commitments and contingencies		
	$13,272	$12,294

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PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues and other income:				
Oil and gas	$967	$820	$2,795	$2,296
Sales of purchased oil and gas	202	82	554	194
Interest and other	2	8	9	3
Derivative gains (losses), net	341	(102)	19	—
Gain (loss) on disposition of assets, net	1	(1)	11	206
	1,513	807	3,388	2,699
Costs and expenses:				
Oil and gas production	168	150	493	440
Production and ad valorem taxes	58	49	169	147
Depletion, depreciation and amortization	274	222	734	650
Purchased oil and gas	194	85	535	196
Exploration and abandonments	22	30	80	65
General and administrative	81	72	244	200
Accretion of discount on asset retirement obligations	3	3	9	9
Interest	46	45	138	139
Other	20	24	55	65
	866	680	2,457	1,911
Income from continuing operations before income taxes	647	127	931	788
Income tax provision	(236)	(48)	(319)	(281)
Income from continuing operations	411	79	612	507
Income (loss) from discontinued operations, net of tax	(37)	19	(113)	52
Net income	374	98	499	559
Net income attributable to noncontrolling interests	—	(7)	—	(30)
Net income attributable to common stockholders	$374	$91	$499	$529
Basic earnings per share attributable to common stockholders:				
Income from continuing operations	$2.84	$0.51	$4.24	$3.49
Income (loss) from discontinued operations	(0.26)	0.14	(0.79)	0.38
Net income	$2.58	$0.65	$3.45	$3.87
Diluted earnings per share attributable to common stockholders:				
Income from continuing operations	$2.84	$0.51	$4.23	$3.44
Income (loss) from discontinued operations	(0.26)	0.14	(0.79)	0.38
Net income	$2.58	$0.65	$3.44	$3.82
Weighted average shares outstanding:				
Basic	143	139	143	135
Diluted	143	139	143	137
Dividends declared per share	$0.04	$0.04	$0.08	$0.08
Amounts attributable to common stockholders:				
Income from continuing operations	$411	$72	$612	$477

Income (loss) from discontinued operations, net of tax	(37)	19	(113)	52
Net income	$374	$91	$499	$529

The financial information included herein has been prepared by management
without audit by independent registered public accountants.
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PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENT OF EQUITY
(in millions, except dividends per share)
(Unaudited)

	Equity Attributable To Common Stockholders						
	Shares Outstanding	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Noncontrolling Interests	Total Equity
Balance as of December 31, 2013	143	$1	$ 5,080	$(144)	$1,665	$ 13	$6,615
Dividends declared ($0.08 per share)	—	—	—	—	(12)	—	(12)
Exercise of long-term incentive plan stock options and employee stock purchases	—	—	6	7	—	—	13
Purchases of treasury stock	—	—	—	(33)	—	—	(33)
Sendero divestiture	—	—	—	—	—	(4)	(4)
Tax benefits related to stock-based compensation	—	—	14	—	—	—	14
Pioneer Southwest merger transaction costs	—	—	(1)	—	—	—	(1)
Compensation costs included in net income	—	—	63	—	—	—	63
Cash distributions to noncontrolling interests	—	—	—	—	—	(1)	(1)
Net income	—	—	—	—	499	—	499
Balance as of September 30, 2014	143	$1	$ 5,162	$(170)	$2,152	$ 8	$7,153

The financial information included herein has been prepared by management without audit by independent registered public accountants.
The accompanying notes are an integral part of these consolidated financial statements.

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PIONEER NATURAL RESOURCES COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$499	$559
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation and amortization	734	650
Impairment of inventory and other property and equipment	7	8
Exploration expenses, including dry holes	11	10
Deferred income taxes	315	276
Gain on disposition of assets, net	(11)	(206)
Accretion of discount on asset retirement obligations	9	9
Discontinued operations	247	114
Interest expense	13	13
Derivative related activity	(39)	122
Amortization of stock-based compensation	63	53
Other	42	(8)
Change in operating assets and liabilities:		
Accounts receivable, net	(77)	(89)
Income taxes receivable	(17)	(3)
Inventories	(27)	(28)
Prepaid expenses	(11)	(7)
Other current assets	(1)	2
Accounts payable	96	184
Interest payable	(26)	(32)
Income taxes payable	1	—
Other current liabilities	(30)	(22)
Net cash provided by operating activities	1,798	1,605
Cash flows from investing activities:		
Proceeds from disposition of assets, net of cash sold	855	685
Additions to oil and gas properties	(2,259)	(1,987)
Additions to other assets and other property and equipment, net	(224)	(160)
Net cash used in investing activities	(1,628)	(1,462)
Cash flows from financing activities:		
Borrowings under long-term debt	523	444
Principal payments on long-term debt	(523)	(1,323)
Proceeds from issuance of common stock, net of issuance costs	—	1,281
Distributions to noncontrolling interests	(1)	(27)
Exercise of long-term incentive plan stock options and employee stock purchases	13	10
Purchases of treasury stock	(33)	(20)
Excess tax benefits from share-based payment arrangements	14	13
Dividends paid	(6)	(6)
Net cash provided by (used in) financing activities	(13)	372
Net increase in cash and cash equivalents	157	515
Cash and cash equivalents, beginning of period	393	229

Cash and cash equivalents, end of period	$550	$744

The financial information included herein has been prepared by management
without audit by independent registered public accountants.

The accompanying notes are an integral part of these consolidated financial statements.

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PIONEER NATURAL RESOURCES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2014
(Unaudited)

NOTE A. Organization and Nature of Operations

Pioneer Natural Resources Company ("Pioneer" or the "Company") is a Delaware corporation whose common stock is listed and traded on the New York Stock Exchange. The Company is a large independent oil and gas exploration and production company operating in the United States, with continuing field operations primarily in the Permian Basin in West Texas, the Eagle Ford Shale play in South Texas, the Raton field in southeastern Colorado and the West Panhandle field in the Texas Panhandle.

NOTE B. Basis of Presentation

Presentation. In the opinion of management, the consolidated financial statements of the Company as of September 30, 2014 and for the three and nine months ended September 30, 2014 and 2013 include all adjustments and accruals, consisting only of normal, recurring accrual adjustments, which are necessary for a fair presentation of the results for the interim periods. These interim results are not necessarily indicative of results for a full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been condensed in or omitted from this report pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC"). These consolidated financial statements should be read together with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

Certain reclassifications have been made to the 2013 financial statement and footnote amounts in order to conform to the 2014 presentation.

New accounting pronouncements. In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers (Topic 606)," which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605, "Revenue Recognition," and most industry-specific guidance. ASU 2014-09 is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB ASC. The new guidance is effective for annual reporting periods beginning after December 15, 2016 for public companies. Early adoption is not permitted. Entities have the option of using either a full retrospective or modified approach to adopt ASU 2014-09. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements or decided upon the method of adoption.

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." ASU 2014-08 prospectively changes the criteria for reporting discontinued operations while enhancing disclosures around disposals of assets whether or not the disposal meets the definition of a discontinued operation. ASU 2014-08 is effective for annual and interim periods beginning after December 31, 2014 with early adoption permitted but only for disposals that have not been reported in financial statements previously issued. The adoption of this new guidance is not expected to have a material impact on the Company's consolidated financial statements.

NOTE C. Divestitures

Divestitures Recorded in Continuing Operations

For the three and nine months ended September 30, 2014, the Company recorded net gains on disposition of assets in continuing operations of $1 million and $11 million, respectively, as compared to a net loss of $1 million and a net gain of $206 million for the same respective periods in 2013. The net gains and losses attributable to the disposition of assets were primarily comprised of the following:

- Vertical drilling rigs. During December 2013, the Company committed to a plan to sell the Company's majority interest in Sendero Drilling Company, LLC ("Sendero") to Sendero's minority interest owner. At December 31, 2013, the assets and liabilities of Sendero were classified as held for sale at their estimated fair value. In March 2014, the Company

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PIONEER NATURAL RESOURCES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2014
(Unaudited)

completed the sale of Sendero for cash proceeds of $31 million and recognized a gain of $1 million associated with the completion of the sale. As part of the sales agreement, the Company committed to a lease agreement with Sendero for 12 vertical rigs through December 31, 2015, and eight vertical rigs in 2016.

- Permian Basin. During February 2014, the Company completed the sale of proved and unproved properties in Gaines and Dawson counties in the Spraberry field in West Texas for cash proceeds of $72 million, which resulted in a gain of $2 million on the unproved property.
- Southern Wolfcamp. In May 2013, the Company completed the sale of 40 percent of Pioneer's interest in 207,000 net acres leased by the Company in the horizontal Wolfcamp Shale play in the southern portion of the Spraberry field in West Texas to Sinochem Petroleum USA LLC ("Sinochem") for cash proceeds of $624 million, which resulted in a gain of $181 million related to the unproved property interests conveyed to Sinochem. Sinochem is paying the remaining $1.2 billion of the transaction price by carrying 75 percent of Pioneer's portion of ongoing drilling and facilities costs attributable to the Company's joint operations with Sinochem in the southern portion of the horizontal Wolfcamp Shale play.
- West Panhandle. During the first quarter of 2013, the Company completed a sale of its interest in unproved oil and gas properties adjacent to the Company's West Panhandle field operations for cash proceeds of $38 million, which resulted in a gain of $22 million.

Divestitures Recorded as Discontinued Operations

Hugoton. In September 2014, the Company completed the sale of its net assets in the Hugoton field in southwest Kansas for cash proceeds of $328 million, including normal closing adjustments. Associated therewith, the Company reduced the carrying value of goodwill by $2 million, reflecting the portion of the Company's goodwill related to Hugoton field net assets sold. See Note D for information about impairment charges on the Hugoton assets.

Barnett Shale. During the fourth quarter of 2013, the Company committed to a plan to divest of its net assets in the Barnett Shale field in North Texas. In September 2014, the Company completed the sale of its Barnett Shale net assets for cash proceeds of $150 million, including normal closing adjustments. See Note D for information about impairment charges on the Barnett Shale assets.

Alaska. During the fourth quarter of 2013, the Company committed to a plan to sell 100 percent of the capital stock in Pioneer's Alaska subsidiary ("Pioneer Alaska"). In April 2014, the Company completed the sale of Pioneer Alaska to an unaffiliated third party pursuant to an amended purchase and sale agreement for cash proceeds of $267 million, before normal closing and other adjustments.

The Company has classified its Hugoton, Barnett Shale and Pioneer Alaska results of operations as income (loss) from discontinued operations, net of tax, in the accompanying consolidated statements of operations.

PIONEER NATURAL RESOURCES COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 2014
(Unaudited)

The following table represents the components of the Company's discontinued operations for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in millions)			
Revenues and other income:				
Oil and gas	$49	$89	$198	$246
Interest and other (a)	1	13	31	39
Gain on disposition of assets, net	—	—	5	9
	50	102	234	294
Costs and expenses:				
Oil and gas production	16	32	59	90
Production and ad valorem taxes	3	5	12	15
Depletion, depreciation and amortization	2	34	11	87
Impairment of oil and gas properties	80	—	305	—
Exploration and abandonments	1	2	3	18
General and administrative	—	2	3	4
Accretion of discount on asset retirement obligations	—	—	1	1
Other	6	(2)	14	(2)
	108	73	408	213
Income (loss) from discontinued operations before income taxes	(58)	29	(174)	81
Current tax provision	—	—	(1)	(4)
Deferred tax (provision) benefit	21	(10)	62	(25)
Income (loss) from discontinued operations	$(37)	$19	$(113)	$52

(a) Primarily comprised of cash received associated with Alaskan Petroleum Production Tax credits on qualifying capital expenditures.

As of December 31, 2013, the carrying values of the Company's ownership in Pioneer Alaska, the Barnett Shale field and Sendero were included in assets and liabilities held for sale in the accompanying consolidated balance sheet and were comprised of the following (the Company had no assets held for sale at September 30, 2014):

	December 31, 2013
	(in millions)
Composition of assets included in assets held for sale:	
Current assets	$58
Property, plant and equipment	526
Total assets	$584
Composition of liabilities included in liabilities held for sale:	
Current liabilities	$29
Other liabilities	10
Total liabilities	$39

NOTE D. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or the price paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based upon inputs that market participants use in pricing an asset or liability, which are characterized according to a hierarchy that prioritizes those inputs based on the degree to which they are observable. Observable inputs represent market data obtained from independent sources, whereas unobservable inputs reflect a company's own market assumptions, which are used if observable inputs are not reasonably available without undue cost and effort. The three input levels of the fair value hierarchy are as follows:

- Level 1 – quoted prices for identical assets or liabilities in active markets.
- Level 2 – quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates) and inputs derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – unobservable inputs for the asset or liability.

Assets and liabilities measured at fair value on a recurring basis. The fair value input hierarchy level to which an asset or liability measurement in its entirety falls is determined based on the lowest level input that is significant to the measurement in its entirety.

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis as of September 30, 2014 for each of the fair value hierarchy levels:

	Fair Value Measurement at the End of the Reporting Period Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at September 30, 2014
	(in millions)			
Recurring fair value measurements				
Assets:				
Commodity derivatives	$—	$185	$—	$185
Deferred compensation plan assets	70	—	—	70
Total assets	70	185	—	255
Liabilities:				
Commodity derivatives	—	1	—	1
Total liabilities	—	1	—	1
Total recurring fair value measurements	$70	$184	$—	$254

Commodity derivatives. The Company's commodity derivatives represent oil, natural gas liquids ("NGL") and gas swap contracts, collar contracts and collar contracts with short puts. The asset and liability measurements for the Company's commodity derivative contracts represent Level 2 inputs in the hierarchy. The Company utilizes discounted cash flow and option-pricing models for valuing its commodity derivatives.

The asset and liability values attributable to the Company's commodity derivatives were determined based on inputs that include (i) the contracted notional volumes, (ii) independent active market price quotes, (iii) the applicable

estimated credit-adjusted risk-free rate yield curve and (iv) the implied rate of volatility inherent in the collar and collar contracts with short puts, which is based on active and independent market-quoted volatility factors.
Deferred compensation plan assets. The Company's deferred compensation plan assets represent investments in equity and mutual fund securities that are actively traded on major exchanges. These investments are measured based on observable prices on major exchanges. As of September 30, 2014, the significant inputs to these asset values represented Level 1 independent active exchange market price inputs.

Assets and liabilities measured at fair value on a nonrecurring basis. Certain assets and liabilities are measured at fair value on a nonrecurring basis. These assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances. These assets and liabilities can include inventory, proved and unproved oil and gas properties and other long-lived assets that are written down to fair value when they are impaired or held for sale. During the three and nine months ended September 30, 2014, the Company recorded charges in other expense in the Company's accompanying consolidated statements of operations of $3 million and $6 million, respectively, to reduce the carrying value of inventory to fair value.

Assets associated with divestitures. Long-lived assets that are classified as held for sale are recorded at the lower of the asset's net carrying amount or estimated fair value less costs to sell. The Hugoton field assets, the Barnett Shale field assets and Pioneer Alaska were classified as held for sale and carried as such until their divestitures in September 2014, September 2014 and April 2014, respectively. Associated therewith, the Company recognized impairment charges during 2014 to reduce the carrying values of the Hugoton field assets, the Barnett Shale field assets and Pioneer Alaska to their sales prices, less costs to sell.

The following table presents the fair value adjustments made by the Company during 2014 related to assets associated with divestitures:

	Sales Value Less Costs to Sell	Fair Value Adjustment Three Months Ended September 30, 2014	Fair Value Adjustment Nine Months Ended September 30, 2014
	(in millions)		
Hugoton field	$328	$(34)	$(34)
Barnett Shale field	$149	$(46)	$(174)
Pioneer Alaska	$253	$—	$(97)

See Note C for additional information regarding the Company's divestitures of the Hugoton field assets, the Barnett Shale field assets and Pioneer Alaska.

Financial instruments not carried at fair value. Carrying values and fair values of financial instruments that are not carried at fair value in the consolidated balance sheets as of September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in millions)			
Long-term debt	$2,662	$3,025	$2,653	$3,019

Long-term debt includes the Company's credit facility and the Company's senior notes. The fair value of debt is determined utilizing inputs that are Level 2 measurements in the fair value hierarchy.

Credit facility. The fair value of the Company's credit facility is calculated using a discounted cash flow model based on (i) forecasted contractual interest and fee payments, (ii) forward active market-quoted United States Treasury Bill rates and (iii) the applicable credit-adjustments.

Senior notes. The Company's senior notes represent debt securities that are traded on major exchanges but are not actively traded. The fair values of the Company's senior notes are based on their periodic values as quoted on the major exchanges.

The Company has other financial instruments consisting primarily of cash equivalents, receivables, prepaid expenses, payables and other current assets and liabilities that approximate fair value due to the nature of the instrument and their relatively short maturities. Non-financial assets and liabilities initially measured at fair value include assets acquired and liabilities assumed in a business combination, goodwill and asset retirement obligations.

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NOTE E. Derivative Financial Instruments

The Company utilizes commodity swap contracts, collar contracts and collar contracts with short puts to (i) reduce the effect of price volatility on the commodities the Company produces and sells or consumes, (ii) support the Company's annual capital budgeting and expenditure plans and (iii) reduce commodity price risk associated with certain capital projects. The Company also, from time to time, utilizes interest rate contracts to reduce the effect of interest rate volatility on the Company's indebtedness.

Oil production derivative activities. All material physical sales contracts governing the Company's oil production are tied directly to, or are highly correlated with, New York Mercantile Exchange ("NYMEX") West Texas Intermediate ("WTI") oil prices. The Company uses derivative contracts to manage oil price volatility and basis swap contracts to reduce basis risk between NYMEX prices and the actual index prices at which the oil is sold.

The following table sets forth the volumes per day associated with the Company's outstanding oil derivative contracts as of September 30, 2014 and the weighted average oil prices for those contracts:

	Three Months Ending December 31,	Year Ending December 31,	
	2014	2015	2016
Collar contracts with short puts:			
Volume (BBL) (a)(b)	69,000	95,767	59,000
Price per BBL:			
Ceiling	$ 114.05	$ 99.36	$ 98.55
Floor	$ 93.70	$ 87.98	$ 86.14
Short put	$ 77.61	$ 73.54	$ 74.75
Swap contracts:			
Volume (BBL)	15,000	—	—
Price per BBL	$ 96.31	$ —	$ —
Rollfactor swap contracts:			
Volume (BBL) (c)	6,630	5,000	—
NYMEX roll price (d)	$ 1.10	$ 0.60	$ —

(a) Counterparties have the option to extend for an additional year 5,000 BBLs per day of 2015 collar contracts with short puts with a ceiling price of $100.08 per BBL, a floor price of $90.00 per BBL and a short put price of $80.00 per BBL. The option to extend is exercisable on December 31, 2015. These contracts give the counterparties the option to extend the contracts under the same terms for an additional year if the option to extend is exercised by the counterparties on December 31, 2015.

(b) During the period from October 1, 2014 through October 30, 2014, the Company entered into an additional 11,000 BBL per day of 2016 collar contracts with short puts with a ceiling price of $87.76 per BBL, a floor price of $82.82 per BBL and a short put price of $72.82 per BBL.

(c) During the period from October 1, 2014 through October 30, 2014, the Company entered into an additional 12,000 BBL per day of 2015 rollfactor swap contracts with a NYMEX roll price of $0.15 per BBL.

(d) Represents swaps that fix the difference between (i) each day's price per BBL of WTI for the first nearby month less (ii) the price per BBL of WTI for the second nearby NYMEX month, multiplied by .6667; plus (iii) each day's price per BBL of WTI for the first nearby month less (iv) the price per BBL of WTI for the third nearby NYMEX month, multiplied by .3333.

NGL production derivative activities. All material physical sales contracts governing the Company's NGL production are tied directly or indirectly to either Mont Belvieu or Conway fractionation facilities' NGL component product prices.

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The following table sets forth the volumes per day associated with the Company's outstanding NGL derivative contracts as of September 30, 2014 and the weighted average NGL prices for those contracts:

	Three Months Ending December 31,	Year Ending December 31,	
	2014	2015	2016
Natural gasoline collar contracts with short puts (a):			
Volume (BBL)	3,500	—	—
Price per BBL:			
Ceiling	$ 97.93	$ —	$ —
Floor	$ 90.14	$ —	$ —
Short put	$ 81.36	$ —	$ —
Ethane collar contracts (a):			
Volume (BBL)	3,000	—	—
Price per BBL:			
Ceiling	$ 13.72	$ —	$ —
Floor	$ 10.78	$ —	$ —
Ethane swap contracts (a)(b):			
Volume (BBL)	—	—	3,000
Average price per BBL	$ —	$ —	$ 12.39
Propane swap contracts (a):			
Volume (BBL)	1,674	—	—
Average price per BBL	$ 47.95	$ —	$ —

(a) Represent derivative contracts that reduce the price volatility of natural gasoline, ethane or propane forecasted for sale by the Company at Mont Belvieu, Texas-posted prices.
(b) During the period from October 1, 2014 through October 30, 2014, the Company entered into an additional 1,000 BBL per day of 2016 swap contracts for ethane with a fixed price of $11.97 per BBL.

Gas production derivative activities. All material physical sales contracts governing the Company's gas production are tied directly or indirectly to NYMEX Henry Hub ("HH") gas prices or regional index prices where the gas is sold. The Company uses derivative contracts to manage gas price volatility and basis swap contracts to reduce basis risk between HH prices and the actual index prices at which the gas is sold.

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The following table sets forth the volumes per day associated with the Company's outstanding gas derivative contracts as of September 30, 2014 and the weighted average gas prices for those contracts:

	Three Months Ending December 31,	Year Ending December 31,	
	2014	2015	2016
Collar contracts with short puts:			
Volume (MMBTU)	115,000	285,000	20,000
Price per MMBTU:			
Ceiling	$4.70	$5.07	$5.36
Floor	$4.00	$4.00	$4.00
Short put	$3.00	$3.00	$3.00
Swap contracts:			
Volume (MMBTU)	195,000	20,000	70,000
Price per MMBTU	$4.04	$4.31	$4.06
Basis swap contracts:			
Mid-Continent index swap volume (a)	120,000	95,000	—
Price differential ($/MMBTU)	$(0.22)	$(0.24)	$—
Permian Basin index swap volume (a)	10,000	10,000	—
Price differential ($/MMBTU)	$(0.15)	$(0.13)	$—
Permian Basin index swap volume (b)	16,630	—	—
Price differential ($/MMBTU)	$0.34	$—	$—

(a) Represent swaps that fix the basis differentials between the index prices at which the Company sells its Mid-Continent and Permian Basin gas, respectively, and the NYMEX Henry Hub index price used in gas swap and collar contracts.

(b) Represent swaps that fix the basis differentials between Permian Basin index prices and southern California index prices for Permian Basin gas forecasted for sale in southern California.

Marketing and basis differential derivative activities. Periodically, the Company enters into buy and sell marketing arrangements to fulfill firm pipeline transportation commitments. Associated with these marketing arrangements, the Company may enter into index swaps to mitigate price risk. As of September 30, 2014, the Company had (i) marketing gas index swap contracts for 40,000 MMBTU per day for the remainder of 2014 with a price differential of $0.31 per MMBTU between Permian Basin index prices and southern California index prices and (ii) marketing oil index swap contracts for 10,000 BBL per day for the remainder of 2014 with a price differential of $2.81 per BBL between Cushing WTI and Louisiana Light Sweet oil ("LLS") and 10,000 BBL per day for 2015 with a price differential of $2.99 per BBL between Cushing WTI and LLS.

Interest rate derivative activities. During the three months ended June 30, 2014, the Company terminated its interest rate derivative contracts for cash proceeds of $14 million. Prior to termination, the Company received a fixed interest rate of 3.95 percent in exchange for paying a floating interest rate comprised of the three-month London Interbank Offered Rate ("LIBOR") plus an average rate of 1.11 percent on a notional amount of $400 million.

During the period from October 1, 2014 through October 30, 2014, the Company entered into interest rate derivative contracts that expire on June 30, 2015 for a notional amount of $200 million. The Company will pay an average fixed rate of 2.43 percent in exchange for receiving the 10-year Treasury rate as of the expiration date.

Tabular disclosure of derivative financial instruments. All of the Company's derivatives are accounted for as non-hedge derivatives and therefore all changes in the fair values of its derivative contracts are recognized as gains or losses in the earnings of the periods in which they occur. The Company classifies the fair value amounts of derivative assets and liabilities as net current or noncurrent derivative assets or net current or noncurrent derivative liabilities, whichever the case may be, by commodity and counterparty. The Company enters into derivatives under master netting arrangements, which, in an event of default, allows the Company to offset payables to and receivables from the defaulting counterparty.

The aggregate fair value of the Company's derivative instruments reported in the consolidated balance sheets by type and counterparty, including the classification between current and noncurrent assets and liabilities, consists of the following:

Fair Value of Derivative Instruments as of September 30, 2014

Type	Consolidated Balance Sheet Location	Fair Value	Gross Amounts Offset in the Consolidated Balance Sheet	Net Fair Value Presented in the Consolidated Balance Sheet
		(in millions)		
Derivatives not designated as hedging instruments				
Asset Derivatives:				
Commodity price derivatives	Derivatives - current	$132	$(4)	$128
Commodity price derivatives	Derivatives - noncurrent	$62	$(5)	57
				$185
Liability Derivatives:				
Commodity price derivatives	Derivatives - current	$5	$(4)	$1
Commodity price derivatives	Derivatives - noncurrent	$5	$(5)	—
				$1

Fair Value of Derivative Instruments as of December 31, 2013

Type	Consolidated Balance Sheet Location	Fair Value	Gross Amounts Offset in the Consolidated Balance Sheet	Net Fair Value Presented in the Consolidated Balance Sheet
		(in millions)		
Derivatives not designated as hedging instruments				
Asset Derivatives:				
Commodity price derivatives	Derivatives - current	$73	$(7)	$66