

**MEEI Response to the recommendations of the First Report of the Joint Select
Committee on Energy Affairs on an Inquiry into the Strategies and Incentives to Promote
New Production in the Energy Industry with Specific Focus on the Ministry of Energy and
Energy Industries**

- A. A committee be re-established three (3) months subsequent to the laying of this Report, to re-examine the PPT incentives particularly the write-off of exploration and development expenditure. The committee in its discussions will determine the subdivision to distinguish wells that qualify for the 100% write-off. The composition of this committee should include the Permanent Secretary, MEEI, the Minister of Energy and Energy Industries, the Minister of Finance, a representative from the Board of Inland Revenue, and a representative from the downstream and upstream sector. The Committee will be mandated to report to the Parliament within three (3) months of its establishment, on recommendations to both improve the incentives for exploration and production and to steady revenues from taxes from companies.

MEEI response:

The Ministry of Energy and Energy Industries (MEEI) agrees with the proposed concept and the Ministry sees the value in the establishment of such a Committee. The Ministry is willing to support the proposed Committee when established. In this regard, many of the items identified currently form part of matters to be reviewed and evaluated under the MEEI 2017 Work Plan.

- B. The introduction of an escape clause within contractual arrangements with energy companies for energy incentives, in order to protect the economy from international price volatility.

MEEI response:

The MEEI appreciates and shares the concern of the Committee with respect to the potential adverse effects of international price volatility and would support the inclusion of provisions that address these gaps. The Ministry would, during re-negotiation and in future negotiations, seek to incorporate such provisions within its contracts.

- C. The implementation of scientific and ongoing analysis of the impact of energy incentives so that the state can be provided with real-time information upon which necessary protective actions can be undertaken.

MEEI response:

The Ministry agrees with the Committee's recommendations and will seek to ensure that proper mechanisms are put in place to monitor and capture information and analysis of data to link incentives to the impact. Further, the mechanisms will be developed in collaboration with the Board of Inland and Revenue (BIR) and the Ministry of Finance.

- D. In establishing the revised incentives, the early write-off on exploration and development expenditure incentive should be limited to a sole option within a reasonable timeframe that would take into consideration environmental changes such as the price of oil and the timing of revenues to be collected by the state.

MEEI response:

The Ministry agrees with the Committee's recommendation and will seek to ensure that proper mechanisms are put in place to monitor and capture information and analysis of data to link incentives to the impact. Further, the mechanisms will be developed in collaboration with the Board of Inland and Revenue (BIR) and the Ministry of Finance.

- E. A mechanism must be developed that protects the state's revenue stream via tracking the impact of incentives by comparing the capital expenditure on the particular development with the "gain" or "saving" made by the exploration company in such a way as to automatically terminate the incentive once a deemed "fair" return on top of the cost recovery had been achieved. This mechanism hinges on the veracity of the stated costs of the project and the MEEI's ability to effectively assess and certify the same. (it may be useful to co-opt external capability to assess this mechanism for large (US\$250 million-plus) projects.

MEEI response:

Mechanisms are in place to verify capital expenditure for projects governed by the Production Sharing Contracts through the submission of Quarterly Reports, Statements and Meetings. These are followed by audits of capital expenditure conducted by the Ministry's PSC Audit Unit. A similar mechanism is to be developed for the Exploration and Production Licences in collaboration with the Board of Inland and Revenue (BIR).

- F. The committee established in recommendation (A), review the provisions for losses carried forward. In particular, the feasibility of losses to be carried forward within a three (3) to five (5) years' period and to establish stipulations for the types of losses that should be allowed to be carried forward and whether it should be linked to price. The committee should report its findings to the MEEI and the Ministry of Finance for further action to amend the Corporation Tax Act, Chap. 75:02 and the Petroleum Tax Act, Chap. 75:04, as needed, to establish specific guidelines regarding losses carried forward and to establish distinctions on losses that can be carried forward from those that should not.

MEEI response:

The Ministry of Energy and Energy Industries (MEEI) agrees with the proposed concept and the Ministry sees the value in the establishment of such a Committee. The Ministry is willing to support the proposed Committee when established. In this regard, many of the items identified currently forms part of matters to be reviewed and evaluated under the MEEI 2017 Work Plan.

- G.** The Committee recommends that the MEEI submit a report to the Committee on the research findings to date on the future use of tar sands in Trinidad and Tobago. The report should clearly delineate actions needed and timelines in the event that pursuing this activity is deemed appropriate taking into consideration economic and environmental factors.

MEEI response:

The MEEI agrees with the recommendation of the Committee and will review and compile a report addressing the research findings to-date, which will include the delineation of actions needed and timelines.

- H.** A Permanent Energy Taxation Review Committee be established three (3) months subsequent to the laying of this report in Parliament to review and recommend SPT rates that respond to profits rather than price and are conscious of the changing environment with regards to the price of oil. This will improve the tax revenues and all operators including small operators can be incentivized, irrespective of the price of oil. Further, the Permanent Energy Taxation Review Committee in its deliberations take into consideration the views of small, medium and large operators by way of consultation.

MEEI response:

The Ministry of Energy and Energy Industries (MEEI) agrees with the proposed concept and the Ministry sees the value in the establishment of such a Committee. The Ministry is willing to support the proposed Committee when established. In this regards, many of the items identified currently forms part of matters to be reviewed and evaluated under the MEEI 2017 Work Plan.

- I.** As a new practice, apart from annually, a Permanent Energy Taxation Review Committee be established and to meet and report as often as was necessary to adequately respond to changes in the environment and the volatility of the price of oil.

MEEI response:

The Ministry of Energy and Energy Industries (MEEI) agrees with the proposed concept and the Ministry sees the value in the establishment of such a Committee. The Ministry is willing to support the proposed Committee when established. In this regard, many of the items identified currently forms part of matters to be reviewed and evaluated under the MEEI 2017 Work Plan.

- J.** Stakeholder consultations should commence as soon as possible, but no later than three (3) months from the laying of this Report in order to ascertain stakeholder feedback on a number of issues such as revisions to the fiscal incentives.

MEEI response:

The MEEI conducted a series of stakeholder consultations as it relates to the Gas Master Plan and National Energy Policy Framework in 2016. Although, the focus of these consultations were not specific to fiscal matters, some proposals for the revision of fiscal incentives were received. The MEEI is willing to collaborate with the Ministry of Finance in the further conduct of stakeholder consultations if required.

- K.** The key stakeholder consultation findings be submitted for laying in Parliament and also for the attention of the Joint Select Committee on Energy Affairs.

MEEI response:

The MEEI agrees with the recommendation of the Committee and will submit the conclusions of the stakeholder consultations for the attention of the Joint Select Committee on Energy Affairs upon finalization.

- L.** Production Sharing Contracts (PSCs) with identified gas pools not under production should be reviewed and the MEEI as the authority for governing the commodity in Trinidad and Tobago should meet with these contractors within three (3) months of the laying of this Report to discuss plans that would lead to the commencement of utilization of small gas pools in the shortest possible time period.

MEEI response:

The MEEI is actively engaged in discussions with relevant operators regarding the matter of Exploration and Production Licences or Production Sharing Contracts to facilitate the development of small gas pools accumulations.

- M. MEEI meets with the relevant stakeholders to establish a policy framework that identifies accompanying specific state, fiscal and market competitiveness objectives that should drive specific decisions on natural gas allocation. This policy framework should be completed within nine (9) months of the laying of this report and should be a publicly available document that is reviewed as and when market or fiscal conditions require.

MEEI response:

The Gas Master Plan provided recommendations for the development of the gas industry, including natural gas allocation. A Sub-Committee of the Standing Committee on Energy reviewed the Gas Master Plan and has completed its review of the Report. MEEI will be guided by the decisions taken in this matter.

- N. All contracts be scrutinized by the MEEI and that the MEEI seek external legal advice on the feasibility of proceeding to take companies who have been dishonoring and manipulating contracts to arbitration.

MEEI response:

The MEEI is not a party to many of these LNG marketing contracts along the Natural Gas value chain. However, the Ministry is willing to collaborate with the NGC and any other relevant stakeholder to review existing contractual arrangements and will ensure greater scrutiny in granting approval of marketing arrangements in the future. The MEEI is currently working with the Ministry of Finance which has engaged a consultant to advise on mechanisms to address any deficiencies in the current LNG marketing arrangements.

- O. MEEI takes the necessary action to continue to track cargoes after they have been sold. The MEEI is to report to the Committee on the establishment and first outputs of this tracking system within three (3) months of the laying of this Report.

MEEI response:

The MEEI will continue to track the destination of LNG cargoes using relevant subscription service (s) and will provide a report to the Committee.

- P. MEEI engages in negotiations with companies to establish that all LNG export contracts be designed with an upside premium sharing of 50% to the Government, which should be a standard term and thus non-negotiable. Further, that the MEEI consider invoking the “changed circumstance” legal concept to renegotiate these contractual issues.

MEEI response:

Subject to legal and commercial advice, the MEEI will seek to engage in negotiation with all LNG value chain stakeholders with the aim of improving the benefits accruing to GORTT. A consultant has been engaged by the Ministry of Finance in this regard.

- Q. MEEI urgently engages external assistance through the supporting partnerships from such institutions as the Oxford Institute of Energy Studies and the Jackson School of Geosciences, University of Texas, Austin Bureau of Economic Geology, University of Texas to seek their assistance in reviewing some of these contracts and to provide recommendations to ensure the protection of the State's interests in these matters.

MEEI response:

The MEEI will seek to procure, as necessary, any technical assistance from experts in the field through the approved process, to enable it to effectively discharge its responsibilities.

- R. The MEEI and the NGC and any other required party should firstly enforce all existing audit rights in these contracts immediately, going back as far as possible to establish a figure for the revenues forgone by the state. Further, all LNG export contracts must provide the MEEI and the MoF with unhindered and complete audit rights to all LNG sales to their final market or destinations.

MEEI response:

The MEEI will seek to enforce all existing audit rights in the natural gas and LNG value chain contracts, in accordance with the applicable terms, therein, to determine foregone revenue from the present to as far back as the contractual provisions provide. The MEEI will seek legal advice on the introduction of audit provisions in all LNG marketing contracts to acquire audit rights to all LNG sales to their final market or destinations. However, the challenge remains that the MEEI is usually not a party to LNG sales agreements.

- S. All LNG export contracts must spell out, in the most definitive language, that all cargoes must be sold to the market that provides the best possible pricing and that deviations from this will attract a special levy or charge by the state, at its own discretion, to recover any "lost" revenues with such charges not being liable for deductions on their tax bill or future other payments due to the state.

MEEI response:

The MEEI is in the process of reviewing LNG sales agreements with the intent of seeking to amend the provisions in LNG contracts to ensure that LNG is sold to the market that provides the best possible pricing.

- T. MEEI holds discussions with relevant companies regarding the scheduling of exploration activity and the feasibility of publicizing the information. This will particularly be beneficial to smaller scaled companies interested in engaging in exploration activities so that they can maximize on rig sharing and other exploration activities. The schedule will also assist in ensuring that companies honour their commitments. Any changes to the schedule will be published.

MEEI response:

The Ministry will continue to facilitate the pursuit of opportunities for shared services throughout the sector. The MEEI through technical meetings is provided with the annual and medium term exploration and development plans of upstream companies. Pursuant to the Local Content Policy and Framework, Upstream companies are obliged to advertise in the local media the services that they wish to procure. Advertisements by Upstream companies are also carried on the Ministry's website.

- U. MEEI discusses with companies the possibility of the use of sub-licenses and/or farm-outs to boost exploration activity.

MEEI response:

The Ministry agrees with the recommendation of the Committee. These mechanisms are currently being utilized to boost exploration and production activity.

- V. The MEEI should engage upstream companies to develop a structured national exploration plan and negotiate with them with a high level of fervor considering the state of the energy industry and the interest of our stakeholders.

MEEI response:

The Ministry has engaged stakeholders with respect to energy policy discussions and with individual operators on their exploration and production plans going forward. This is supported by quarterly meetings whereby, operators inform the Ministry on the status of their oil and gas operations. Further, the Ministry intends to offer both onshore and offshore acreage for bidding in 2017.

- W. The Committee recommends that the MEEI develop a comprehensive plan that firstly identifies an oil production target over a defined period. Secondly, based on the exploration and production history of the areas, MEEI establish a specified number of wells that should be drilled in each year to provide the needed production. Flowing from that, the rig days needed to pursue the established well drilling programme will result.

MEEI response:

The Ministry agrees with the development of a comprehensive plan that identifies an oil production target based on the exploration and production historical data as well as projections based on annual work programmes of the various operators.

- X. The committee established at recommendation (A) also deliberate on avenues to incentivize the development of small marginal fields, inclusive of options that provide more gas sales flexibility, that is, outside of the NGC.

MEEI response:

The MEEI agrees with the proposed concept and will seek to introduce fiscal incentives in collaboration with the Board of Inland Revenue (BIR) and the Ministry of Finance for development of marginal fields.

- Y. See response at A The committee should seek the views of the existing small/medium downstream operators on accessing gas directly from upstream providers who operate small/marginal gas fields.

MEEI response:

The Gas Master Plan provided recommendations for the development of the gas industry, including options for the development of small/marginal gas fields. A Sub-Committee of the Standing Committee on Energy reviewed the Gas Master Plan and has completed its review of the Report. MEEI will be guided by the decisions taken in this matter.

- Z. The MEEI hold discussions with the NGC regarding the establishment of contracts for fields labelled "Need Gas Contract" and report to the Parliament on the status of obtaining the contracts.

MEEI response:

The Ministry agrees to hold discussions with NGC.

- AA. Immediate steps should be taken to drive through the system the fact that energy is the single largest contributor to gross domestic product and the positions unique to the Ministry must attract compensation that reflects parity with base levels in the sector. This can be achieved by governmental decision and actioned quickly within the current administrative arrangements pending consideration of the potential new organizational permutations for the Ministry.

MEEI response:

The MEEI has taken steps to address this by the completion of a draft Note for the Cabinet for the first phase of Restructuring and Institutional Strengthening of the MEEI. Upon approval, recommendations will be proposed to the Chief Personnel Officer for the reclassification of positions unique to the Ministry.

- BB.** Due consideration must be given to returning to the MEEI the scholarships that exist under the Production Sharing Contracts that were removed and placed under the ambit of the Ministry of Public Administration. These scholarships should be for the sole use of creating and sustaining a “pipeline” of young, recently graduated energy professionals who are required to serve the MEEI for specified periods. The evidence is clear that many, now senior, professionals who benefited from these scholarships and returned, have made significant contributions.

MEEI response:

The mechanisms for the development of these is a matter of government policy. The MEEI will continue to work with all relevant stakeholders to ensure the professional requirements of the Ministry are supported by the scholarship programmes.

- CC.** The MEEI immediately seeks to fill the established positions by way of contract, which is more feasible and flexible given the type of positions.

MEEI response:

For Established positions, the MEEI will work with the Department of Personal Administration to have vacancies filled in the shortest possible time. Where applicable the Ministry will seek approval for the creation and filling of Contract positions to address the gaps.

- DD.** In terms of the backlog, the MEEI should immediately seek to create a sub-team to bring this matter to closure within six (6) months with short-term (3-6 month) contracts.

MEEI response:

The MEEI has engaged Service Providers on short-term contract of three (3) to six (6) months to assist with the backlog.