

Mr. Speaker, I have been authorised by the Government to make this statement to the Honourable House on the 2010 Bid Rounds.

By Legal Notice No. 114 dated April 8, 2010 the Competitive Bid Order inviting tenders for seven blocks in the North, East and West Coast Marine Areas of Trinidad and Tobago was issued.

The Order which was cited as the Petroleum Regulations (Competitive Bid) Order 2010 stipulated the following:

- The marine areas which are subject to competitive bidding comprise Blocks NCMA 2, NCMA 3, NCMA 4, NCMA 5 located in the marine area off the North Coast of Trinidad and Tobago in water depths of 200 to 300 metres, Blocks 4(b) and 5 (d) located offshore East Coast of Trinidad and Tobago in water depths of 400 to 800 metres and the North Marine Block located off the West Coast of Trinidad and Tobago in water depths of 25 to 50 metres.
- The payment of the pre-bid application fee which is a prerequisite for the submission of a bid and entitles the prospective applicant to a data package for the relevant block from the Ministry, which package includes:
  - A Model Production Sharing Contract 2010 for Shallow Marine Areas
  - A Model Production Sharing Contract 2010 for Average Water Depth Areas
  - The Model Joint Operating Agreement
  - The Point System for use in the Evaluation of Bids received
  - Trinidad and Tobago Energy Sector Local Content and Local Participation Framework

- Bids are to conform to the provisions of the Model Production Sharing Contracts and are to contain proposals for the following:
  - A commitment to a work programme, (the minimum work programme) and expending such funds as are necessary to complete the work programme
  - The sharing of petroleum produced from the contract area
  - Twenty per cent carried participation in the obligatory phase for the State for Blocks NCMA 2, NCMA 3, NCMA 4, NCMA 5 and the North Marine Area. Blocks 4(b) and 5(d) are excluded in recognition of their more challenging water depths
  - A signature bonus which will be payable on the issue of the Contracts for Blocks NCMA 2, NCMA 3, NCMA 4 , NCMA 5 and the North Marine Area. Again Blocks 4(b) and 5(d) are excluded in recognition of their more challenging water depths
  
- Bid proposals are to be evaluated on the basis of the provisions outlined in the Model Production Contracts and the Point System described in Order.
- To this end successful bidders wishing to be granted production sharing contracts are being asked to:
  - Execute the production sharing contract within one month of notification of the successful bid. This should avoid the lengthy negotiations and result in timely execution.
  - Register under the Companies Act or be incorporated under this act before commencing petroleum operations.
  - Deliver to the Minister on the effective date of the contract guarantees for the minimum work obligation and financial obligations
  - Participate in the Oil Spill Contingency Area

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- Initially, successful bidders will be issued production sharing contracts for a period of six years but upon the achievement of commercial discovery, the contract may be renewed for the portion of the contract area, on which the discovery was made, for a term of twenty-five years from the effective date of the contract. Where a commercial discovery is not achieved within six years the contract will terminate automatically.

The closing dates for the bids was August 11, 2010 on which date it was also proposed to launch the 2010 bid round for the deepwater blocks. To date the Ministry has received a total of TT\$4 million by companies interested in bidding for the blocks on offer. The new companies coming forward include RWE DEA AG, a German company and Apache Corporation, an American company. The other companies include Centrica Energy, Repsol and Voyager. Most of the local operating companies already have the data and so are at liberty to pay the bid fee whenever they chose, we therefore expect the number of companies interested will rise before the closing date for bids.

Mr Speaker, the Peoples' Partnership Government recognizes the importance of our hydrocarbon resources to the country and the people of Trinidad and Tobago. In our manifesto, which has been approved as the Government's policy document, we undertook to guide the exploration, the exploitation, utilization and monetization of our hydrocarbon resources for the benefit of current and future generations, while safeguarding and protecting the environment.

Our natural gas reserves have continuously been declining as evidenced by the 2009 Ryder Scott Reserve Audit which estimated our 3P Reserves at 28.15 trillion cubic feet and our reserves to production ratio at 10 years. Our crude oil production has fallen to approximately 100,000 barrels per day from a high of 228,000 in 1978. We are committed to arresting the decline in our oil and gas reserves by encouraging increased and periodic exploration of our resources. This will engender greater energy security and prove-up reserves to maintain a healthy reserves to production ratio.

Therefore, on the assumption of office, this Government supported the proposals for bid rounds for the exploration of our hydrocarbon resources. However, given the changing global market dynamics, with a very abundant gas potential from Shale rock, a lowering of oil prices forecast following the global financial crisis of 2008/09, it is important that the terms and conditions be globally competitive and that the industry is aligned with the risk and reward of continuing deep water exploration in Trinidad and Tobago. Accordingly, a Committee comprising energy stakeholders, the Ministry of Energy and Energy Affairs and the Ministry of Finance was set-up to solicit the views of the sector on the bid round proposals.

Arising from the consultation with the energy industry, two major issues surfaced. These were the form of Production Sharing Contract and the effective tax rate for the average and deep water blocks.

In the case of the Production Sharing Contract, a prior decision was taken to forego the Taxable PSC which was utilized in the 2005/6 Bid Round. This form of the PSC removed the feature of fiscal stability that Contractors enjoyed under the 1995 PSC regime and thus proved a disincentive to companies and investors. In its place a new concept, in which the Government's share was in lieu of taxes and impositions of the contractor, was proposed. However, it was determined that the proposed new concept would not qualify for tax credit in other jurisdictions and therefore would negatively impact on the project economics.

In the circumstances it was agreed to revert to the successful 1995/1996 Production Contract Model adjusted as follows:

- Open and biddable Profit Share Matrices
- A flexible work programme
- Ring Fencing of expenditure

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- Twenty- per cent carried participation which is applied to shallow acreage only
- Higher cost recovery provision
- Fixed financial obligations
- Fair Market Value computation in line with the provisions of the Petroleum Taxes Act

Mr. Speaker, while the majority of blocks in this bid round are in shallow waters our future hydrocarbon reserves lie in the average and deep waters, which represent our new exploration frontier. Our own technical analysis suggests that there are fields in this region with potential resources in the order of 1.8 billion barrels of oil or 6.7 trillion cubic feet of gas as an upside.

Blocks in the average and deep water environment, as represented by water depths in excess of 400 metres, incur higher exploration and production costs as much as three to five times the cost of exploration in shallow water. In the Gulf of Mexico deep water is classified as water depths in excess of 400 metres and drilling costs are in the order of US\$90 million per well and lifting costs average US\$9-10 per barrel.

Our analysis indicates that given the high cost structure for exploration and development in the average to deep water depths that companies at the current tax rates will be unable to achieve the rate of return commensurate with the exploration risks for blocks in this environment.

Based on statistics provided by noted tax consultants, Wood Mackenzie, Trinidad and Tobago under the current fiscal regime has a Government take of eighty-three per cent compared to other jurisdictions such as Angola, Indonesia and Brazil which have a Government take of approximately seventy-one percent

The terms and conditions of the current fiscal regime have been a deterrent to further investment in our deep waters. In the recent past, interest shown by

companies in at least four deep water blocks was negated by the poor project economics due to the unattractive fiscal regime.

Given the risks involved, and the fact that our deep water province is largely untested it is important to create the conditions that will ensure the positive interest of the energy industry both from the commercial and technical perspectives. The feedback from the companies is that technical evaluations of the deepwater are encouraging but in order to test the reservoirs systems the fiscal package must be complementary.

Accordingly a review was undertaken of the fiscal regime comprising the uplift provisions on expenditure, supplemental petroleum tax, petroleum profits tax and unemployment levy. Various scenarios were analysed with a view to ensuring the following:

- A Government take in keeping with international norms and which would meet the taxes and impositions of the Contractor
- A rate of return to the Contractor commensurate with the risks involved in deepwater exploration

Based on the review it was determined that a reduction of the Petroleum Profits Tax to thirty-five per cent would achieve this objective. Government has therefore agreed to reduce the Petroleum Profits Tax to thirty-five per cent for blocks in water depths in excess of 400 metres. This compares with the taxation applied in other competing jurisdictions such as Ghana and the Gulf of Mexico and will bring Government take in line with other deep water jurisdictions. In the current Bid Round this will be applicable only to the East Coast blocks which are in water depths of 400 to 800 metres.

Mr. Speaker there is strong interest in the deep water blocks. The companies in response to a request for nominations have expressed interest in twenty-four deep water blocks. Based on the revised fiscal regime it is anticipated that this

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interest will be translated into production sharing contracts for deep water exploration.

Concomitant with any oil exploration is the attendant risks involved in drilling activities. As a Government, with a respect for the environment we are taking steps to mitigate such risks.

The measures include the review of the following:

- Our well control regulatory framework to determine whether the current regime requires upgrading so that the necessary safeguards are in place for the protection of people, assets and the environment.
- All aspects of any well, including the possible well controls measure and Blowout Preventer Specifications.

In addition there is inspection of the drilling rig, including the BOP, to ensure that it is fit for purpose and that its maintenance records and standard operating procedures have been certified by recognized certification bodies.

More recently we have appointed a Committee to review our National Oil Spill Contingency Plan to ensure that the necessary response and recovery mechanisms are in place in the event of a major oil spill. This review will not be limited to addressing oil spills, but also chemical spills, liquefied natural gas spills and gas leaks and releases. The Committee is due to report in five weeks

Trinidad and Tobago is a hydrocarbon province with a history of oil and gas exploration. To date there have been no major environmental incidents with respect to our exploration activities and the above measures are designed to maintain this record.

Mr, Speaker, several companies have an indicated an interest in the shallow, average and deep blocks water. However given the review of the draft PSC and the fiscal regime for average blocks, Contractors have sought an extension of the deadline for the submission of bids for the blocks that were offered under the Legal Notice No. 114 of April 8, 2010.

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The Government has agreed to the request by the companies and has extended the date required for submission of bids from August 11, 2010 to 12 noon on September 8, 2010. It is also proposed to launch the bid round for the deep water blocks on September 8, 2010. The date of announcement of successful bids for the shallow and average blocks will be no later than November 12, 2010,

Mr. Speaker I thank you.