Lower taxes equal greater investment

Touchstone Exploration CEO, Paul Baay

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Touchstone Exploration president and CEO, Paul Baay, at the T&T Energy Conference at the Hyatt Regency in Port-of-Spain, on Tuesday. PHOTO BY NICOLE DRAYTON

To attract international investment, the layer of taxes that energy companies are faced with needs to be addressed.

This was the observation by Touchstone Exploration's president and CEO Paul Baay, as he spoke to the Business Guardian at the Energy Conference this week at the Hyatt Regency.

Baay said the energy industry's maximum tax rate is 55 to 60 per cent, while petrochemical and every other commercial tax rate is a maximum of 35 per cent.

The supplemental petroleum tax on oil, he noted, is a disincentive to explore for the commodity in this country and that must be dealt with by the relevant authorities.

"When you think about 12.5 per cent royalty on oil and there is SPT (Supplemental Petroleum Tax) and that is another 18.5 per cent royalty when oil gets over US$75 a barrel. We got a Green Fund Levy of about five per cent (0.3 per cent of gross income) and then a corporate tax rate that can be up to 55 per cent after all of that. You pile all of that on top of each other it gets to a very, very big number," Baay explained, in a panel discussion he participated in.

Baay described it as being an easy fix to get more investment from international energy companies.

On the issue of the bureaucracy in T&T, which the CEO has spoken about tirelessly with a smile on his face, the Touchstone president said, "The bureaucracy has changed immensely in the last two years. It's been streamlined and there's a willingness to get things done."

Baay urged the government to wrap their minds around having a smaller piece of a much larger pie versus a very big piece of a shrinking pie.

"Right now, the industry's shrinking. We have to remember that in 2027 and 2028, some big projects are coming on stream, the Manatee Project and all the rest that are going to move that production up. I don't think it's sort of as dire as everybody thinks. I believe you just have to figure out how to get past the next two years and then how you get beyond that. Some challenges, but it's still an unbelievable place to do business. I wouldn't trade it for anything, but there is lots of room for improvement," he said.

Touchstone projection

Baay said 2025 is going to be a great year for the Canadian energy company, as it is going to be drilling several wells to fill its gas facility.

He said that the big deal for the energy company was the agreement to acquire Shell Trinidad's Central Block Ltd (STCBL) last December, from BG Overseas Holdings for US$23 million in cash, pending regulatory approval.

"Touchstone is just in the midst of closing that deal and it should close in the first half of this year.

Really, what that does is it gives us another gas facility, but it's hooked into both the petrochemical plants and the LNG facility. It makes our market much better in what we do. Quite frankly, it makes us the biggest onshore gas player, which is what we've always strived to do," he said.

In a release in December, Touchstone said that the Central Block currently produces approximately 18 million cubic feet per day (MMcf/d) of natural gas and 200 barrels per day (bbls/d) of natural gas liquids, translating to about 3,200 barrels of oil equivalent per day (boe/d).

Heritage Petroleum Company Ltd holds the remaining 35 per cent interest in the Central Block.

The acquisition includes STC- BL's four wells in the Carapal Ridge, Baraka, and Baraka East natural gas pools, which produce a mix of natural gas and natural gas liquids.

Explaining why the energy company went in this direction, Baay said it had been in negotiation with Shell and talked to them about it always being of interest.

"It consolidates our position there and allows us to bring any new gas we find down there. That plant is a little unique in that it takes all the liquids out. You get the liquids as well as the gas before you send it to the market.

Shell's main focus here is offshore.

"They haven't focused a lot of tech and capital on that property. It allows us to go in as a smaller company. It may not meet Shell's hurdles, but it'll meet our economic hurdles. So, we can then go in and drill that up and bring that up to production," Baay disclosed.

On the topic of acquisitions, Baay was asked why Touchstone Exploration's attempt to acquire Trinity Exploration and Production fell through. Baay said the long and short is that a local company outbid them.

"Touchstone didn't see the value that they saw. We walked away and Lease Operators Limited picked up the asset. I mean, we would have liked it, but we just didn't see the value that they saw. So, it was pretty simple. We got outbid," he said.

In May 2024, Touchstone disclosed in a news release an agreement between the boards that the acquisition represented an implied value for Trinity of approximately US$30.1 million, based on the closing Touchstone share price as of April 30, 2024.

Fast forward to July 17, the Trinity board received an unsolicited, conditional, non-binding, indicative proposal from Lease Operators, a private company incorporated in T&T, owned by the Brash family and run by Charles Brash and his son Anthony.

The Lease Operator proposal, which was for all of Trinity's shares, was a cash offer, with the price of 68.05 pence per Trinity share. That valued the oil company at £26.5 million (about US$34.18 million).

About Touchstone's financials for this year, Baay said there would be a significant increase from last year, However, he said the one thing the company looks at as disappointing is the Cascadura facility in the Rio Claro field, which reported a 23 per cent decrease in average production between the first and second quarters of 2024, with natural declines from the Cascadura field being the primary cause.

Baay noted that the decline was not unexpected, as these big wells, when they come on stream can be what is called a flush production, and then they start to level out.

"The company is seeing that now. If you look back at our November, December, and January production, we're starting to see those level out. It is levelling out at a lower place than what we initially thought.

"What that means is we're going to have to reallocate our capital because we're getting less cash. So we'll have to reallocate our capital around a little bit. It's nothing really dramatic. It's just that fine-tuning that we have to do on where we're going to spend our money," he said.

He made it clear that Cascadura is still a world-class asset, and nothing has changed there for sure.

"The other places that we're looking at drilling now that we have the Shell facility, the other nice thing would be we'd be able to ramp up our Coho production because it comes down into Shell and there were some capacity constraints. But when you own it, you can make room for things," Baay added.