HMRC - OT05325 - Crude Oils And Products - How To Calculate Category 1 Values

This

Relevant Reports, reference values and adjustment factors:

The PRA assessments specified in the Regulations (see footnote 1)are:

Forties

Ekofisk

Statfjord

Find Notional Delivery Date (NDD)

Find Notional Delivery Date (NDD)

See OT05308.

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Does NDD have at least one Reference Value for the NDD?

The answer to this is either YES or NO, so follow the appropriate path in the flowchart.

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NDD is a day for which reference values are available:

Find the average of each Reference Value (RV) from each Relevant Report (RR) for each day 2-1-2 (Regulation 9)

If a Relevant Report publishes more than one Reference Value, then these should be averaged first. Typically PRAs publish a high and a low assessment for a crude oil on a particular day. These should be average to give the RV for that PRA on that day.

Once the NDD has been determined, and as long as it has at least one published Reference Value, find the average of the published RVs (or of the averaged RVs as may be the case) for each of these days:

each one of the two days before the NDD

the NDD itself

each of the two days following the NDD.

This five day average is the Average Reference Value for the NDD.

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NDD is a Saturday or non-Monday Bank Holiday and for which reference values are not available:

Find average of each RV from each RR for each day 3-2 (Regulation 10)

If a Relevant Report publishes more than one Reference Value, then these should be averaged first. Typically PRAs publish a high and a low assessment for a crude oil on a particular day. These should be averaged to give the RV for that PRA on that day.

Once the NDD has been determined, and as long as it has at least one published Reference Value, find the average of the published RVs for each of these days:

each one of the three days before the NDD,

each of the two days following the NDD.

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NDD is Sunday or a Monday Bank Holiday and for which reference values are not available:

Find average of each RV from each RR for each day 2-3 (Regulation 11)

If a Relevant Report publishes more than one Reference Value, then these should be averaged first. Typically PRAs publish a high and a low assessment for a crude oil on a particular day. These should be averaged to give the RV for that PRA on that day.

Once the NDD has been determined, and as long as it has at least one published Reference Value, find the average of the published RVs for each of these days:

each one of the two days before the NDD,

each of the three days following the NDD.

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Gaps in the 2-1-2, 3-2 or 2-3 run of daily averages (other than the NDD itself)

Regulation 12(2) and (3)- “non-publication days”:

The essential requirement for the calculation of a market value for a particular NDD is that there must be a run of five daily averages. On occasions, following these rules will produce a run of less than five days because one or more of the days has not got any published PRA assessments (usually because of a bank or other public holiday). Such a day is called a “non-publication day” If that happens then extend the run of days backwards, if the gap occurs before the NDD, or forwards (if the gap occurs after the NDD) to include one or more extra days to make up the run of days to five, see

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Find the average of the 5 daily averages

These steps for the 2-1-2. 3-2 or 2-3 methods will give a series of exactly five daily average prices, which then must be averaged to give the market value for the NDD in question.

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Brent blend: Add the adjustment factor (AF) (Regulation 14)

To calculate this number, analogous to the commercial differential to the marker crude, daily differentials for the three PRAs for each day 14 to 21 days (inclusive) before the NDD have to be calculated.

There will be gaps in this run of 8 days. So the AF for any given day will be calculated from as little as four days worth of data (the Easter weekend for example), or up to 6 days worth of data (a period without Bank Holidays for example).

Daily AFs for each PRA are calculated as follows:

Argus: Brent LESS Dated BFOE.

ICIS: Brent LESS Dated BFOE.

Platts: AF = Brent assessment 10 to 21 days out LESS North Sea dated strip.

These are then averaged to give a daily average AF. If there are less than three published AFs, use those that are published.

The daily average AFs for each day 14 to 21 days (inclusive) before the NDD are then averaged to give the Brent AF for that NDD.

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Non-Brent blends: Add the adjustment factor (AF) (Regulation 14)

To calculate this number, analogous to the commercial differential to the marker crude, daily differentials for the three PRAs for each day 14 to 21 days (inclusive) before the NDD have to be calculated.

There will be gaps in this run of 8 days. So the AF for any given day will be calculated from as little as four days worth of data (the Easter weekend for example), or up to 6 days worth of data (a period without Bank Holidays for example).

Daily AFs for each PRA are calculated as follows:

Argus: quoted grade differential LESS Dated BFOE.

LOR: quoted grade differential LESS Dated BFOE.

Platts: Spread vs forward DTD Brent for the quoted grade.

These are then averaged to give a daily average AF. If there are less than three published AFs, use those that are published.

The daily average AFs for each day 14 to 21 days (inclusive) before the NDD are then averaged to give the non-Brent AF for that NDD.

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Calculating the Market value- Reg 16

The Adjustment factor for the grade in question is added to the Reference value for the NDD in question to give the “market price” for each particular crude oil on that day (note that the Regulations do not give a name for the sum of the reference value and the adjustment factor, so “market price” has been used as a convenient label for this number).

This “market price” is then multiplied by the volume of oil to be valued to give the total market value. Since the “market price” is by convention measured in $ per barrel, multiplying the “market price” by the volume (measured in barrels) will produce a total market value measured in $. (See OT05075 for how to convert this into pounds sterling).

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Forties sulphur de-escalator

See OT05328

Footnote:

SI2206\3313 Oil Taxation (Market Value of Oil) Regulations 2006.

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