HMRC - OT05820 - PRT: Terminal Liftings - Background

There are many instances in the UK or on the UK Continental Shelf where oil from different fields is blended, be it on a platform, in a pipeline system, or at an onshore terminal. At some point this blended stream will be loaded on to tankers (or more rarely pipeline delivered) and sold by the producers as a single standardised product. These blends can range from the large widely traded ones such as Forties and Brent down to two-field blends with one or two cargoes loading per chargeable period.

Commingling agreements between the various blend participators determine how much of a month’s blend production is attributable to each originating field (using hydrocarbon accounting to account for the quality differentials of the oil produced from different fields). FA87\S63 requires LB Oil & Gas approval that all the terms of these commingling agreements are acceptable for the purposes of PRT. If not then different terms may be imposed for tax purposes only. See OT05601 for more information.

Field joint venture agreements determine how this production is then allocated between the field participants at any time.

If all of a company’s oil production in the blend for a month was loaded on to one tanker every month the above agreements would be sufficient for PRT purposes to determine the field source of the blended oil. However some companies have sufficient production to entitle them to more than one lifting of a blend in a month. Also onshore terminals and some offshore blended oil installations have storage facilities whereby all the oil produced from the fields making up the blend may not actually be loaded on to tankers as it is delivered to the loading facility.

Therefore these agreements are not sufficient to provide a neutral determination of the field source (and quantities) in respect of a company’s lifting of oil in a blend.

At some of these loading facilities the operator will determine how a participator’s liftings in a particular month are allocated across its field interests. The allocation basis being based upon the participator’s actual or estimated share of available blended oil (opening stock and production) in the month in question. However the lifting agreements at most of the larger facilities (and some others) allow the producer a large degree of discretion over how a particular lifting of oil is allocated between its field interests. This means that a producer can assign more of a lifting to a field than its share of available blend production would merit (overlift) or assign less (underlift). The lifting agreements will contain parameters to ensure that a company’s field interest does not become too over- or under -lifted. But within these constraints the producer normally has unfettered flexibility over how to allocate liftings to its fields.

This flexibility to assign liftings to certain field interests gave certain companies, who chose to do so, the opportunity to assign high value sales of the blend to their field interests that did not pay PRT (new fields and those whose profits were covered by allowances) and lower values ones to the PRT-paying fields thus reducing their PRT exposure.

A further tax mitigation opportunity was available to the large producers in a blend from purchasing of parcels of that blend from smaller producers under ‘period of entitlement’ term contracts. These contracts allow the purchaser to acquire the seller’s oil production from one or more of its field interests for a certain period (usually either 6 months or a year) in a blend in return for regular payments based upon the seller’s estimated monthly production entitlement from the field interests covered by the contract. There is usually a cash adjustment at the end of the contract period to reflect actual production against the estimates used in determining the payment schedule.

The purchaser normally has discretion over when the oil under the contract is actually lifted (subject to facility lifting agreement constraints). This discretion allowed the purchaser to lift this oil to satisfy its higher priced sales contracts in the blend thus leaving its own production available to satisfy its lower priced sales contracts.

Research undertaken by LB Oil & Gas confirmed that a number of companies (though not all) with the scope to exploit these opportunities were doing so. This resulted in both a reduced PRT take, and afforded these companies an unfair competitive advantage over other companies.

Therefore the attribution rules were introduced to codify how liftings of blended oil are allocated between a company’s field interests in the blend.

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