HMRC - OT05950 - PRT: Terminal Liftings - Disposal Of Field Interests - Main Rules (Regulation 7)

As part of the process of field interest disposals, the buying and selling parties will often agree that there will be a point during the sale process where the seller will intend to stop lifting oil from the field.

If the normal allocation rules under regulations 4 or 5 were to apply this would mean that there could be a mismatch between the tax and operational positions when the rules would have allocated some liftings to this field. As the decision not to lift from this field is not being done to obtain a tax advantage, the tax allocation rules are modified in these circumstances.

Where a participator has agreed to the disposal of a field interest or interests (be it Heads of Agreement or some other formal document short of this) he can elect to LB Oil & Gas to be treated as not having lifted from the field or fields being disposed of from a certain date except where he is required to do so under facility lifting rules.

This date is called the ‘cessation date’.

In order for the modified rules to apply the participator must provide the following information to LB Oil & Gas by the beginning of the month in which the cessation date falls.

the names of seller and buyer;

the field interest or interests in question;

the proposed completion date of the sale; and

the cessation date.

How the modified rules apply:

If the participator has notified LB Oil & Gas as outlined above then, from the cessation date the field or fields being disposed of will be separated from the seller’s other field interests in the blend for the purposes of allocating liftings. No blend liftings will be allocated to the separated interests unless the facility lifting rules require it.

Where the facility lifting rules do require further liftings to be allocated to these fields the participator must identify the lifting, or part of a lifting that is to be allocated to those fields.

Regulation 7(5) then applies to allocate such liftings between the separated field interests where there is more than one such interest.

The normal formula applies with the modifications that:

A is the amount of lifting allocated to the separated fields,

B is the production entitlement for the month from the particular separated field interest,

C is the production entitlement for the month from all of the separated field interests.

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