HMRC - OT09200 - Expenditure - Initial Treatment Or Initial Storage

OTA75\S3(1)(g)

Initial treatment and initial storage are terms defined in OTA75\S12(1). Allowable expenditure is limited to treatment and storage which is part of the production process only. Initial treatment and storage can take place either onshore or offshore.

Initial treatment, OTA75\S12(1)

‘Initial treatment’ generally means the subjection of oil to a process which would enable it to be safely transported and stored, or the removal of methane, water, salt and other impurities.

The definition includes the separation of gas from other oil, fractionation of several commercial gases, liquefying gas for transportation and subjecting oil to processes designed to produce a quality of crude oil normal for disposal, e.g. butane spiking.

Conversely, the definition excludes storage, processes associated with refining and deballasting (including the tanks and equipment used to purify polluted water used in the cleaning and ballasting). Any oil recovered in deballasting is not chargeable to PRT, but it is regarded as ring fence income for CT purposes.

Initial treatment was considered in BPEOC v CIR, (SpC00254). The Special Commissioners found that safety was a relative concept; expenditure which made a safe process even safer did not fall outwith the meaning of ‘safely loaded’, particularly in anticipation of increasing requirements. The Commissioners followed Nationwide Access Limited and Another v Commissioners of Customs and Excise in which Dyson J stated:

‘The nature of an ongoing Act requires the court to take account of changes in technology and treat statutory language as modified accordingly when this is needed to implement the legislative intention’.

Onshore storage, OTA75\S12(1)

‘Initial storage’, in the case of onshore storage, means a capacity of no more than 10 times the maximum daily production rate of oil from the field, whether planned or achieved. In looking at the maximum capacity LB Oil & Gas is prepared to disregard ‘tops’ and ‘bottoms’. These are those parts of the tanks which are never used in practice. ‘Tops’ are the top metre or so of storage which is left empty in case of overflow and bottoms are the bottom two metres where sludge forms and above which the floating roof will ‘ground’ on the floor of the tank.

Offshore storage, OTA75\S12(1)

There is no such limit for offshore storage on the UKCS, e.g. platform subsea tanks do not rank for inclusion in calculating the limit.

Initial storage: exclusions, OTA75\S12(1)

There are also specific exclusions relating to both onshore and offshore storage:

storage as part of, or in conjunction with, the operation of an oil refinery

deballasting

conveying oil in pipeline.

The point of (c) is to prevent argument that oil in a pipeline onshore is in storage, but this can present problems in the case of onshore fields since OTA75\S3(1)(f) does not apply. However, LB Oil & Gas accepts that the cost of transporting oil by pipeline from the well head to the storage tanks is admissible.

If a field lacks storage facilities offshore the costs of a tanker moored off a production platform may be admitted.

Previous page

Next page