HMRC - OT11400 - PRT: Long-Term Assets - Assets Used For More Than One Field

OTA83\Sch1\Para5(1)

Basic Apportionment

In the case that expenditure is incurred on acquiring, bringing into existence or enhancing an asset which, at the end of the relevant claim period (see OT11050 and below), is used, or is expected to be used, in more than one of the purchaser’s fields, the expenditure is apportioned between those fields on a just and reasonable basis. It is necessary to have regard to field use in respect of fields not only in the claim period but in the future. A once and for all view is taken at the end of the claim period as to what future events will affect the claim.

There is no hard and fast rule as to how ‘just and reasonable’ should be interpreted and each case must be decided on its own particular facts. It will also be vital to consider any documentation relating to the project, including material submitted to the Department of Energy and Climate Change (DECC, formerly the DTI), for example for approval.

In particular cases it may be appropriate to apportion expenditure to the two (or more) fields using the asset on the basis of their expected recoverable reserves. Conversely, there may be occasions when it is just and reasonable to allocate all of the costs to one field.

For example, the second field may make use of a ‘shared asset’ much later than the first, and in fact may use capacity made available only because the first field has passed its peak. Another factor might be that the reserves of one field are so insignificant in comparison to another’s that it is just and reasonable to attribute all the expenditure to the larger field. It may also be that a particular asset is only acquired etc. because of its prospective use by one field, even though it is actually used by more than one, e.g. facilities designed to link a new field to existing infrastructure. In that case it is likely that the apportionment will need to be wholly, or substantially, weighted towards that new field, depending naturally upon all the facts.

Tariff Receipts

Where the new asset

is shared between two (or more) fields in which the purchaser is a participator and

tariff receipts are attributed to one of those fields - the ‘chargeable field’, see OT15150 -

then so much of the allowable expenditure attributable to the use of the asset by the other field (or fields) - the ‘paying field’ - is apportioned to the chargeable field OTA83\Sch1\Para5(2).

Application of OTA83\SchH1\Para5(2) depends upon the effectiveness of the tariffing arrangements. Where there is common ownership in paying and receiving fields, the arrangements may be wholly or partially ineffective. As the interpretation of tariffing agreements involves the consideration of complex areas of commercial and tax law all of the underlying documentation should be examined at an early stage. See also OT15210.

If it appears at the end of the relevant claim period that the new asset is, or is expected to be, used in connection with a field in which the purchaser is not a participator, a just and reasonable apportionment is made of the expenditure to reflect that use. The percentage in question is then added to the percentage of the expenditure that relates to use in the ‘chargeable field’ (OTA83\Sch1\Para5(3)).

Where the purchaser’s fields do not have the same relevant claim period, the end of the relevant claim period to be taken for the purposes of OTA83\Sch1\Para 5 is the one that ends first (OTA83\Sch1\Para5(4)).

Undetermined Fields

A participator in a field may purchase an asset for use in that field, but in circumstances where that asset is also expected to be used in a prospect, or ‘undetermined field’, once it has been given development consent. In some cases it may be that the asset purchased is not, or is not expected to be, used in connection with the original field at all, but only in connection with the undetermined field.

In such situations an apportionment of the expenditure under OTA83\Sch1\Para5 cannot be made if the second field remains undetermined at the end of the chargeable period in which the expenditure on the asset is incurred. Where the paragraph refers to fields, only determined fields are in point.

However, this does not necessarily mean that all the expenditure will be allowable in the original field. Disallowable expenditure may include costs that are incremental to what would have been spent on the development of the determined field without regard to the undetermined field. Given the wide range of different arrangements that are possible, individual cases will need to be decided on their own facts.

Tax-Exempt Tariffing Receipts

Where an asset is used or expected to be used in a way that gives rise to tax-exempt tariffing receipts (OT15810) the expenditure that it is just and reasonable to apportion to the tax-exempt tariffing use is excluded from being allowable expenditure by OTA83\S3A (OT15910).

Other Expenditure Apportionment Rules

Apportionment of operating expenditure is provided for at OTA75\S3(6), see OT09375. The key difference is that OTA75\S3(6) refers to specific field purposes and apportions expenditure incurred partly for a field purpose and partly not. OTA83\SCH1\PARA5 conversely apportions expenditure merely according to use or expected use in connection with more than one field for one of the OTA75\S3(1) purposes.

OTA75\S3(7) covers the apportionment of operating expenditure which is incurred in connection with a long-term asset and which gives rise to tariff receipts OT09400. The tariff receipts-generating expenditure is treated as field expenditure.

OTA75\S3(1C)-(1D) covers apportionment of decommissioning expenditure, i.e. expenditure allowable under OTA75\S3(1)(i)-(j), see OT09250.

OTA83\Sch1\Para6

Where an asset is used, or expected to be used, by more than one field, but no apportionment falls to be made under OTA83\Sch1\Para5, OTA83\Sch1\Para6 provides that the expenditure is treated as wholly attributable to the field in which the purchaser is a participator. If there is more than one such field, the field in which the earliest development decision was made is selected. And if decisions relating to two or more fields were made on the same day, the largest of those fields is selected (compare the tariffing attribution rules, see OT15150).

The rule most typically covers the situation in which an asset is purchased for use in just one field in which the purchaser is a participator but is also to be used to generate tariffs from other fields in which it does not participate.

This paragraph enables supplement to be given on all the expenditure attributed to the field, provided the expenditure meets the necessary conditions, see OT12050. It would not do so otherwise because the test for allowing supplement in OTA75\S3(5) is purposive and not based on use or expected use.

Previous page

Next page