HMRC - OT15725 - Calculation Of Tariff Receipts Allowance: Participators In Common

Tariff receipts allowance (TRA) is calculated by the A x B/C formula contained in OTA83\Sch3\Para2(1), see OT15675. Where none of the participators in the user field (see OT15625) is also a participator in the principal field, the ‘C’ factor is usually the throughput from the user field. But see OT15700 for an example where this is not the case (Chevron Petroleum (UK) Ltd v CIR (67TC414), tariff relating to only part of the throughput).

The Chevron case led various oil companies to argue that the ‘C’ factor should be reduced where a company participates in both the user and principal fields with the consequence that there is self-to-self tariffing. On 4 November 1997, the predecessor office of LB Oil & Gas wrote to UKOITC, OTAC and Brindex largely accepting this view (see

In cases where there are standard tariffing arrangements and there is self- to-self tariffing, it has been accepted that the application of the netting down principle described at OT15210 means that only part of the oil from the user field is oil for which a tariff is effectively received. Where the self-to-self element is ignored for PRT purposes, it is accepted that it refers to a discrete quantity of oil that is not ‘oil to which … qualifying tariff receipts relate’ (OTA83\Sch3\Para2(1)), see OT15675.

A ‘standard tariffing arrangement’ is, broadly, an agreement whereby the participators in one field arrange for a tariff to be paid to the participators in another field, in respect of all the oil transported (or in respect of another qualifying activity) from the user field. If the tariffing arrangement differs from this, the application of the Chevron case will have to be considered in the light of the particular facts.

Example

X and Y are each 50% participators in Field A and 50% owners of a pipeline.

X and Z are each participators in Field B. X has a 60% interest and Z has a 40% interest. Field B uses the Field A pipeline and the transportation contract requires a payment of £1 for each metric tonne of Field B’s oil that is transported through the pipeline.

Field B produces 500,000 metric tonnes of oil, all of which is transported via Field A’s pipeline.

Following the netting down principle described in OT15210 of the £300,000 (60% x £500,000) tariff due from X in field B, only £150,000 (50% x £300,000), the proportion paid to Y, is recognised for PRT purposes. This £150,000 is recognised as referring to 150,000 metric tonnes of oil. The £150,000 not recognised for PRT purposes is treated as referring to 150,000 metric tonnes of oil for which tariffs are not paid.

All the tariff paid by Z in field B is recognised for PRT: tariffs are paid on 200,000 metric tonnes.

The ‘C’ factor is 350,000 metric tonnes being 100,000, the quantity of oil to which X’s effective tariff relates (representing Z’s payment to X) plus 250,000, the quantity of oil to which Y’s wholly effective tariff relates (50% of the gross tariff).

The TRA computations for the tariffs received by field A are

for X, £100,000 x 250,000/350,000 = £71,429 (the A factor is the £100,000 received from Z; the self-to-self element is ignored);

for Y, £250,000 x 250,000/350,000 = £178,571.

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