

Bioblends delivered by cross-country pipeline

During the meeting of the Biofuels Working Group on 11.12.2007 HMRC agreed to provide a discussion document regarding the impact of the introduction of bioblend on the pipeline Duty Adjustment Statement (DAS) accounting procedures

HMRC Notice 179 describes the duty adjustment procedure at paragraph 9.7 as follows:

The calculation of additional duty due, or credit of duty allowable, as a result of re-grading of interfaces, is based on the industry's method of adjustment of over- and short deliveries between shippers in pipeline systems. The method used is to relate **all deliveries** from the pipeline system, including re-graded interfaces, back to the **original receipts** into the system from mineral oil producers' premises where the duty charge occurred, in litres. The original duty charge per product is then adjusted up or down according to the increase or decrease in the quantity received into the system.

To allow for temperature and measurement difference, each monthly delivery figure per product, per shipper, is first adjusted to bring it back to a calculated receipt figure by applying a factor derived from the formula:

$$\frac{\text{Total receipts into pipeline (adjusted for any stock difference)}}{\text{Total deliveries out of the pipeline}}$$

This factor is known as the pipeline system measurement ratio (MR).

The calculated receipts are then compared with the actual receipts for the month, per product, per shipper (after allowing for opening and closing stocks) and a debit or credit quantity is calculated for each. These quantities are extended by duty rate to give a debit or credit duty amount per product, per shipper.

This adjustment is brought to account via the shipper's duty deferment account.

Presently, the position is clear, for example, where the adjustment relates to ULSD, delivered on payment of duty @ £0.5035 ppl, the volume and duty adjustment will be attributed to that rate on the DAS. However, the introduction of bioblend requires a duty calculation based on the proportions of biodiesel and hydrocarbon oil used in the production of the blend. This effectively results in payment of a 'composite rate' via the deferment holder's HO10.

In practice, the duty payable is calculated on the basis of 'biofuel used in blending' (removing the need to identify the volume of biofuel actually passing the duty

point). This 'apportionment' between the respective duty rates for biodeisel and hydrocarbon oil will not, under current practice, be recognised for the purposes of DAS accounting as the pipeline operator will recognise the product as, for example ULSD. Therefore, all subsequent adjustments in respect of deliveries by the pipeline system will reflect the £0.5035 rate.

The DAS system must recognise the 'apportionment' between duty rates and consideration must be given to identifying a pragmatic resolution to this issue.

Any proposed solution must:

- a) Result in an adjustment which fairly reflects the duty initially paid on receipts into the pipeline system and;
- b) Recognise that separate quantification of the volumes of biodiesel and hydrocarbon oil received into the system is not practical.

As a starting point, it is suggested that this document be given wide circulation amongst shippers and pipeline operators with a view to gathering thought and opinion ahead of a meeting of interested parties.