

## **Provincial Sales Tax Lease Fuel Allowance for Natural Gas Producers**

Provincial Sales Tax (PST) applies to natural gas consumed in stationary internal combustion engines used in the compression of natural gas for the purposes of gathering, processing, storage, transmission and injection. Natural gas consumed by producers on site is commonly referred to as Lease Fuel.

PST does not apply to natural gas self-produced and consumed by the producer in the operation of stationary engines at the well site unless the gas is consumed for any of the purposes outlined above. The exemption includes Lease Fuel used for heating purposes in dehydrators or heaters.

The total volume of Lease Fuel used at a compressor facility is metered but typically a breakdown of the actual amount consumed by the compressors and the amount used for other purposes like heaters and heating for dehydration is not maintained. To help address this issue, all producers that consume Lease Fuel at their compression facilities may deduct a 10 per cent allowance when calculating the tax due on the total volume of metered Lease Fuel that is consumed at the facility.

### **Valuation of Taxable Natural Gas Consumed by Producers**

For PST purposes, the value of taxable natural gas (Lease Fuel) consumed by a producer is discussed in PST-14, *Information for Oil and Natural Gas Producers*. It states the following:

1. Where natural gas is purchased, the value is the purchase price.
2. Where natural gas is produced and consumed by a producer, the value for tax purposes shall be:
  - a) a deemed average production cost that is periodically determined in consultation with the industry, which value is currently set at \$87.00CDN per 1,000 cubic meters; or
  - b) the actual cost of the natural gas as determined from the producer's records, which value shall include operating expenditures, Crown and Freehold royalties, depreciation, depletion and amortization.

**Note:** The average production cost of \$87.00 was derived as an administrative alternative that allows producers to account for tax in lieu of calculating the actual costs. Where a producer elects to switch from the deemed cost to actual costs, that producer must continue to use actual costs from that point forward.

**Example of the method to calculate tax due using the Lease Fuel allowance:**

Total volume of Lease Fuel consumed at the facility	300	10 <sup>3</sup> m <sup>3</sup>
<b>Less:</b> Deduction for Lease Fuel Allowance (10%)	<u>30</u>	
Taxable volume used in the compressor	270	
Taxable value @ \$87		\$23,490.00
PST @ 5%		\$1,174.50

**For Further Information**

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