

# Queensland Revenue Office

## Petroleum and Gas (Royalty) Regulation 2021

### Position Paper Classification of petroleum

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## Relevant legislation

*Petroleum and Gas (Production and Safety) Act 2004* (PG Act)

Petroleum and Gas (Royalty) Regulation 2021 (the Regulation)<sup>1</sup>

## Purpose of paper

1. This paper provides guidance on the views of the Commissioner of State Revenue (the Commissioner) regarding the classification of petroleum for the purpose of determining petroleum royalty liability under the PG Act and the Regulation from 1 October 2020.

## Background

2. From 1 October 2020 petroleum royalty is payable on the volume of petroleum produced by a petroleum producer (producer) during a royalty return period (return period) that is liable for petroleum royalty. The royalty payable by a producer is dependent on the type of petroleum produced and the basis on which the royalty rate is determined for the producer.
3. For calculating petroleum royalty liability for a producer for a return period, there are therefore three principal matters to be determined:
  - (a) total liable volume of petroleum produced by the producer during the period
  - (b) classification of the liable volume of petroleum as liquid petroleum, project gas, supply gas or domestic gas
  - (c) petroleum royalty rate applicable for each class of petroleum.
4. This position paper addresses the classification of petroleum.
5. Separate position papers have also been issued dealing with the measurement of petroleum, determination of petroleum royalty rates and the application of Part 2 of the Regulation to swap arrangements.

## Preliminary issues

6. Unless a contrary intention appears, words and expressions used in this paper have the same meaning as in the PG Act and the Regulation.
7. A reference to the Regulation includes a reference to the equivalent provisions of the Petroleum and Gas (Royalty) Regulation 2004 as it was in effect following commencement of the *Royalty Legislation Amendment Act 2020* on 1 October 2020 and until its expiry on 31 August 2021. The *Taxation Administration Act 2001* (the Administration Act) also applies to the administration of petroleum royalty from 1 October 2020.

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<sup>1</sup> Prior to 1 September 2021, the Petroleum and Gas (Royalty) Regulation 2004 applied.

## Legislative framework

8. The PG Act requires a producer to pay petroleum royalty for petroleum that the producer produces.<sup>2</sup>
9. A producer includes:
  - (a) for petroleum produced from a petroleum tenure under the PG Act or the *Petroleum Act 1923*—the petroleum tenure holder who produces it or for whom it is produced
  - (b) for petroleum that is incidental coal seam gas mined under s.318CM of the *Mineral Resources Act 1989*—the coal or oil shale mining lease holder who mines it or for whom it is mined
  - (c) for petroleum that is coal seam gas mined under a mineral hydrocarbon mining lease—the coal or oil shale mining lease holder who mines it or for whom it is mined.<sup>3</sup>
10. A producer also includes a person who has applied to, and been approved by, the Commissioner to be taken to be a producer for petroleum royalty purposes in relation to a stated amount of petroleum produced as part of a particular petroleum operation.<sup>4</sup>
11. For a producer, petroleum royalty is payable for a return period on the liable volume of petroleum produced by the producer during the period; that is the total volume of petroleum produced minus the volume of petroleum that is exempt from petroleum royalty for the period.<sup>5</sup>
12. A return period may be either a financial year or a calendar quarter.<sup>6</sup>
13. The applicable royalty rate for a return period is dependent on the volume of petroleum produced by a producer that is classified as either liquid petroleum, domestic gas, supply gas or project gas.<sup>7</sup> The volume of each class of petroleum produced in a return period must be determined for calculating the petroleum royalty payable for the period.
14. Petroleum royalty is calculated, and obligations such as royalty return lodgement are imposed, on the basis of petroleum operations, rather than on the basis of individual wells or petroleum tenures.<sup>8</sup>

## Liquid petroleum

15. Petroleum produced by a producer in a return period is liquid petroleum if the petroleum is oil.<sup>9</sup> For this purpose, oil is defined as being petroleum in a liquid state.<sup>10</sup> That is, for petroleum royalty purposes, oil is a defined term that may include petroleum products such as condensate.
16. Where the petroleum produced is in a liquid state, it is classified as liquid petroleum.
17. The total volume of liquid petroleum produced by a producer during a return period that is not exempt is liable for royalty at the rates determined in section 30 of the Regulation.

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<sup>2</sup> Section 590(1) of the PG Act

<sup>3</sup> Schedule 2 of the PG Act, definition of 'petroleum producer'

<sup>4</sup> Part 2, Division 6 of the Regulation

<sup>5</sup> Sections 145, 148A, 148F and 148K of the PG Act

<sup>6</sup> Section 36 of the Regulation

<sup>7</sup> Sections 16, 20, 25 and 30 of the Regulation

<sup>8</sup> Lodgement on the basis of petroleum operations is pursuant to an administrative arrangement.

<sup>9</sup> Section 9 of the Regulation

<sup>10</sup> Section 5 of the Regulation

## Classification of petroleum that is gas—general

18. Gas is petroleum in a gaseous state at standard temperature and pressure.<sup>11</sup>
19. Petroleum in gaseous state must be classified as domestic gas, supply gas or project gas for the purpose of determining the applicable royalty rate and the royalty payable for that petroleum for a return period. Accordingly, any gas that is exempt from petroleum royalty must be excluded from the volumes classified as being domestic gas, supply gas and project gas.
20. This is particularly relevant for domestic gas which, under section 6 of the Regulation, includes gas that is flared or vented. Where flared or vented gas is exempt from petroleum royalty, such as under section 591A of the PG Act when it is used for production testing, the volume of domestic gas produced in the return period, determined under section 6(1)(b)(ii) of the Regulation, does not include this exempt volume.
21. Classification of gas must be undertaken for the return period for which the producer lodged returns. That is, if a producer lodges returns for an annual period, all gas produced during that annual period must be classified for that period to allow petroleum royalty liability to be determined. If a producer lodges quarterly returns, all gas produced during that return period must be classified for that period.

### **Domestic gas**

22. Petroleum produced by a producer during a return period is domestic gas if it is
  - (a) gas
  - (b) it is not supply gas as definedand
  - (c) during the return period:
    - (i) it is sold or otherwise transferred, either directly by the producer or indirectly by the producer through one or more resellers<sup>12</sup> for the producer, to a person who is not an LNG project buyeror
    - (ii) it is flared, vented or usedor
    - (iii) for a producer who is not a member of an LNG project, it is stored by, or kept in the possession of, the producer or one or more resellers for the producer.<sup>13</sup>
23. For gas that is sold, it must be sold to a person (domestic purchaser) who is not an LNG project buyer for it to be classified as domestic gas. The relevant sale is either one made directly by the producer, or indirectly by the producer through one or more resellers. That is, where there is a series of sales through a producer's resellers, it is necessary to identify the person to whom the final sale is made; if that person is an LNG project buyer the gas is not domestic gas.

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<sup>11</sup> Section 5 of the Regulation defines *gas* and *standard temperature and pressure*

<sup>12</sup> A reseller for a producer is defined in Schedule 1 of the Regulation as a relevant entity for the producer that sells, or otherwise transfers ownership of, petroleum that is produced by the producer and is owned by the reseller.

<sup>13</sup> Section 6 of the Regulation

24. Not all gas produced by a producer during a return period and stored during that period will be domestic gas. In particular, gas that is produced by a producer who is a member of an LNG project and stored during that period is not domestic gas; rather it is project gas.<sup>14</sup>
25. Also, if gas is classified as supply gas in a return period it cannot also be domestic gas; that is, the definitions of supply gas and domestic gas are mutually exclusive. Therefore, if gas is produced and stored by a producer during a return period and is then sold to an LNG project buyer in that same period, it will be classified as supply gas and not domestic gas.<sup>15</sup>

### **Supply gas**

26. Petroleum produced by a producer during a return period is supply gas if:
  - (a) it is gas
  - (b) it is not produced by the producer as a member of an LNG projectand
  - (c) during the return period it is sold, or otherwise transferred, either directly by the producer, or indirectly by the producer through one or more resellers for the producer, to an LNG project buyer.<sup>16</sup>
27. For gas that is sold, it must be sold to a person who is an LNG project buyer for it to be classified as supply gas. The relevant sale is either one made directly by the producer, or indirectly by the producer through one or more resellers. That is, where there is a series of sales through a producer's resellers, it is necessary to identify the person to whom the final sale is made. If in a return period the producer has sold gas to a reseller but there is no final sale by the reseller to an LNG project buyer even though the gas is intended for final sale to an LNG project buyer, the gas produced in the period cannot be classified as supply gas. Rather, as it would still be stored by or kept in the possession of the reseller in the period, it would be domestic gas.
28. Petroleum produced by a producer as a member of an LNG project cannot be supply gas. Accordingly, an LNG project member can only produce gas classifiable as either domestic gas or project gas.
29. For other producers, an LNG project buyer is a person who the producer or the producer's reseller knows is a member of an LNG project. For establishing the requisite knowledge about a buyer's identity, a producer or reseller will be taken to know the person is an LNG project buyer if they have given the producer or reseller a notice (LNG project buyer notice) stating the buyer is a member of an LNG project.<sup>17</sup> The notice need only be given to a particular producer once, and must be given as soon as reasonably practical after the first purchase of gas made by the person after 1 October 2020.
30. Notice about a person's identity as an LNG project buyer can also be given to a producer or reseller by the Commissioner.<sup>18</sup> This may be done for instance if the Commissioner becomes aware an LNG project buyer has failed to provide the notice within a reasonable time.<sup>19</sup>

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<sup>14</sup> Section 6(1)(b)(iii) of the Regulation

<sup>15</sup> Section 6(1)(c) of the Regulation

<sup>16</sup> Section 7 of the Regulation

<sup>17</sup> Section 12(2) of the Regulation

<sup>18</sup> Section 12(4) of the Regulation

<sup>19</sup> Failure to provide the notice as required is an offence with a maximum penalty of 100 penalty units

31. If during a return period a producer sells or otherwise transfers ownership of gas produced in the period, whether directly or indirectly through a reseller, it must classify that gas as supply gas if it is taken to know the purchaser is an LNG project buyer. This includes where the reseller has been given the LNG project buyer notice.
32. Where the sale is to a relevant entity that may be a reseller, this requires information being obtained from the relevant entity about the identity of any further purchaser of the gas. If information is not available when the producer sells to the relevant entity, the producer will need to determine the classification based on all available and relevant information. Where it is reasonable to form the view that the relevant entity ordinarily purchases gas for resale, the producer will need to determine the appropriate basis for classifying the gas, including the possibility of it being ultimately sold to an LNG project buyer.
33. As noted in paragraph 25, if the gas is as a matter of fact supply gas as defined in the Regulation—that is, it is sold by a reseller to a person who has provided the reseller with a notice under section 12 of the Regulation—it cannot be classified as domestic gas.
34. As the classification of gas is undertaken for the return period in which the gas is liable for royalty, gas sold or otherwise transferred to a person during the period must be classified as supply gas if an LNG project buyer notice is given by the purchaser, or the Commissioner, before the end of the return period.
35. For instance if, during the December 2020 return period, a producer makes three sales of gas produced during the period to a person who has not provided an LNG project buyer notice, and a further sale to the person who provides the notice at that time, all gas sold under those four sales will be classified as supply gas for determining petroleum royalty liability for the December 2020 return period.
36. If on the other hand the LNG project buyer notice is given to the producer in January 2021, the gas sold during the December 2020 return period will not be classified as supply gas (unless the Commissioner provides the producer with a notice before 31 December 2020). Rather it will be classified as domestic gas.
37. Where it is not possible for a producer to identify the purchaser of its gas, such as where the gas is sold through the Wallumbilla Hub and no information is available about the purchaser, the gas will be classified as domestic gas. This can be contrasted to the situation where it is possible for the producer to determine the identity of the purchaser but they make no attempt to do so or a reseller refuses to provide the required information. In those cases, incorrect classification of the gas, and consequent underpayment of petroleum royalty may result in reassessment and liability for unpaid tax interest and penalty.

### ***Project gas***

38. Petroleum produced by a producer during a return period is project gas if:
  - (a) it is gas
  - (b) it is produced by the producer as a member of an LNG projectand
  - (c) it is not domestic gas.
39. The Commissioner may determine that a petroleum venture is an LNG project. This LNG project decision must be notified in writing and include the names of all members of the LNG project and

the date the decision takes effect.<sup>20</sup> The date of effect of an LNG project decision may be earlier than the date the notice is given. That is, for a petroleum venture that exists on 1 October 2020, the LNG project decision may have effect from 1 October 2020.

40. Once a person is given notice they are a member of an LNG project, they must give an LNG project buyer notice to any producer or reseller they purchase gas from. This LNG project buyer notice must be given as soon as reasonably practical after the first purchase made following the person being advised they are an LNG project member, but need only be given once to a particular producer or reseller. Also, no notice is necessary if gas is purchased from a member of the same LNG project.
41. Once an LNG project decision applies for a producer, all gas produced by the producer as a member of the LNG project will be classified as project gas unless it is domestic gas. That is, if an LNG project decision is notified to a producer in December 2020 and applies from 1 October 2020, all gas produced by the producer during the December 2020 return period will be project gas unless it satisfies the definition of domestic gas.
42. As noted at paragraph 23, domestic gas includes gas sold or otherwise transferred, either directly by the producer or indirectly by the producer through one or more resellers for the producer, to a person who is not an LNG project buyer. Therefore, where a member of an LNG project sells gas it produces, it will need to be able to identify whether or not the gas has been sold to an LNG project buyer. Where the sale is to a relevant entity that may be a reseller, this would require information being obtained from the relevant entity about whether the gas is on-sold and the identity of the further purchaser of the gas. If this information is not available, the producer cannot determine with certainty that the gas is domestic gas and it will be classified as project gas.

### ***Timing for classification of gas***

43. It is not possible to determine the classification of gas at the time of production. This is because classification requires consideration of matters that occur after that time but within the return period in which the production occurs. For instance, gas will be classified as domestic gas if, in the return period in which it is produced, it is sold to a person who is not an LNG project buyer. It is not until the sale is made that the gas can be classified. If it was instead sold to an LNG project buyer during the period, it would be classified as supply gas.
44. The Regulation therefore requires establishing a connection between the volume of gas produced in a particular return period and the volumes of gas dealt with in particular ways in the same period, whether it is sold, flared, vented, used or stored.
45. The basis for classifying gas and determining the relevant volume of each classification produced in a return period as required by the Regulation is set out in Attachment 1 and discussed below under *Classification of petroleum produced by producer who is not an LNG project member* and *Classification of petroleum produced by producer who is an LNG project member*.
46. However, it is recognised that application of this methodology may raise practical issues for producers, including where gas is purchased during the return period, or where gas was produced in a prior return period and is dealt with in the current return period (e.g. gas was produced in a prior period, stored during that period and then sold in the current return period).
47. Alternative methods for determining the volumes of domestic gas, supply gas and project gas produced during a return period are therefore provided to enable producers to adopt the method that is most appropriate for them.

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<sup>20</sup> Section 10 of the Regulation

## Classification of petroleum produced by producer who is not an LNG project member

48. A producer who is not a member of an LNG project (non-project producer) may produce liquid petroleum, domestic gas or supply gas.
49. In relation to gas produced, where a non-project producer makes no sales of gas to an LNG project buyer in a return period, all gas produced during that period is domestic gas.
50. If a non-project producer sells gas to an LNG project buyer in a return period, the producer will be liable for petroleum royalty for supply gas and may also be liable for domestic gas.
51. Gas produced in a period cannot be domestic gas if it is within the definition of supply gas. Therefore, for classifying the liable volume of gas produced in a return period where a non-project producer sells gas to an LNG project buyer, the starting point is determination of the volume of supply gas.
52. As supply gas is gas that is produced by a non-project producer in a return period and sold during that period to an LNG project buyer, the volume of gas so sold during the period must be determined. Where the total volume of gas sold in the current period to an LNG project buyer includes gas produced in a prior return period (prior period gas), the total volume of gas sold in the current period to an LNG project buyer may be reduced by the volume of the prior period gas if the producer can clearly identify and reconcile the relevant prior period gas volume so sold.
53. If clear identification of the relevant prior period volume of gas sold to LNG project buyers is not possible, the alternative is for the producer to proportionally allocate the volume of prior period gas between the total volume of gas sold to LNG buyers in the current return period and the total volume of gas determined to be domestic gas.
54. The volume of domestic gas produced in a return period is determined by adding the volume of gas produced in the period that is sold, flared, vented, used or stored in that period in a way mentioned in section 6(1)(b) of the Regulation. As noted at paragraph 19, the volume of domestic gas does not include any gas that is exempt from petroleum royalty, such as gas that is flared or vented during the return period as part of production testing and exempt under section 591A of the PG Act.
55. On the same basis as for supply gas, the volume of gas otherwise within section 6(1)(b) of the Regulation may be reduced by the volume of prior period gas included in these volumes if the producer can clearly identify the relevant prior period volume. If this is not possible, proportional allocation between the total volume of gas sold to LNG buyers in the return period and the total volume otherwise determined to be domestic gas will be required as noted above.
56. The volume of supply gas and domestic gas so determined for the return period must equal the total liable volume of gas produced in the period.
57. It is acknowledged that determination of supply gas and domestic gas volumes produced in a return period using this methodology (Reconciliation Method) may raise issues in classifying the volume of liable gas for a return period and any relevant prior period volumes that are included in current period volumes used<sup>21</sup> or sold.
58. Therefore, as an alternative to simplify compliance for producers, and in recognition of the principle in section 6(1)(c) of the Regulation that any gas that is supply gas cannot be domestic gas, the Commissioner would support adoption of the following methodology (Direct Method) for determining the volume of supply gas and domestic gas produced in a return period:
  - (a) Supply gas = total volume of gas sold to LNG project buyers in return period

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<sup>21</sup> Including flared, vented or stored



- (b) Domestic gas = total volume of gas produced in return period minus supply gas determined in (a)
59. Attachment 2 provides a worked example of the Reconciliation Method and Direct Method (see Example 1).
60. Where a non-project producer purchases gas during a return period and that volume of gas is included in the volumes of supply gas or domestic gas determined using either of the above methodologies, the producer may reduce that volume of the domestic gas or supply gas having regard to the clear, demonstrable purpose for which the gas was purchased. That is, if a producer can clearly demonstrate that gas is purchased for the sole purpose of supplementing the gas it sells to LNG project buyers, and that all domestic gas is sourced from its own production, it may treat the full volume of domestic gas as referable to its produced gas, and reduce the volume of supply gas determined using the Reconciliation Method or Direct Method by the volume of gas purchased and sold in the return period.
61. If there is no clear, demonstrable purpose for which gas is purchased in a return period, the alternative is for the producer to either:
- (a) reduce the volume of domestic gas and supply gas determined using the Reconciliation Method (or reduce the volume of supply gas determined using the Direct Method) to reflect the volume of gas purchased in the return period, based on the proportion that each of those supply gas and domestic gas volumes bear to the total of those volumes
- or
- (b) to simplify compliance, treat all of the purchased gas as being referable to domestic gas so that no adjustment is made to the volume of supply gas determined using either the Reconciliation Method or Direct Method unless there is some remaining volume of purchased gas to be allocated.
62. Attachment 2 provides a worked example of how purchased gas may be taken into account for determining the volume of supply gas and domestic gas produced in a return period (see Example 2).

### **Classification of petroleum produced by producer who is an LNG project member**

63. For a producer who is a member of an LNG project, no gas produced during a return period by the producer as a member of the LNG project (LNG project producer) can be supply gas.<sup>22</sup> Accordingly, the gas produced by the producer during the period must be classified as either domestic gas or project gas.
64. In classifying the gas produced, project gas is all gas produced during a return period by an LNG project producer that is not domestic gas.
65. For a producer who is a member of an LNG project, domestic gas is all gas produced by the producer during the period that is sold, flared, vented or used in that period in a way mentioned in section 6(1)(b) of the Regulation.<sup>23</sup>
66. Determination of the volume of domestic gas produced in a return period must be undertaken as the first step in classifying the gas produced by an LNG project producer. As noted, the remaining volume of gas produced by the producer during the period is project gas. That is, determination of the volume of project gas produced in a return period is a mathematical exercise of subtracting the volume of

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<sup>22</sup> Section 7 of the Regulation

<sup>23</sup> See paragraph 19 regarding the exclusion from domestic gas volumes of exempt gas.

domestic gas produced in the period from the total volume of gas produced in that period. No further analysis about the actual use of the gas classified as project gas is required.

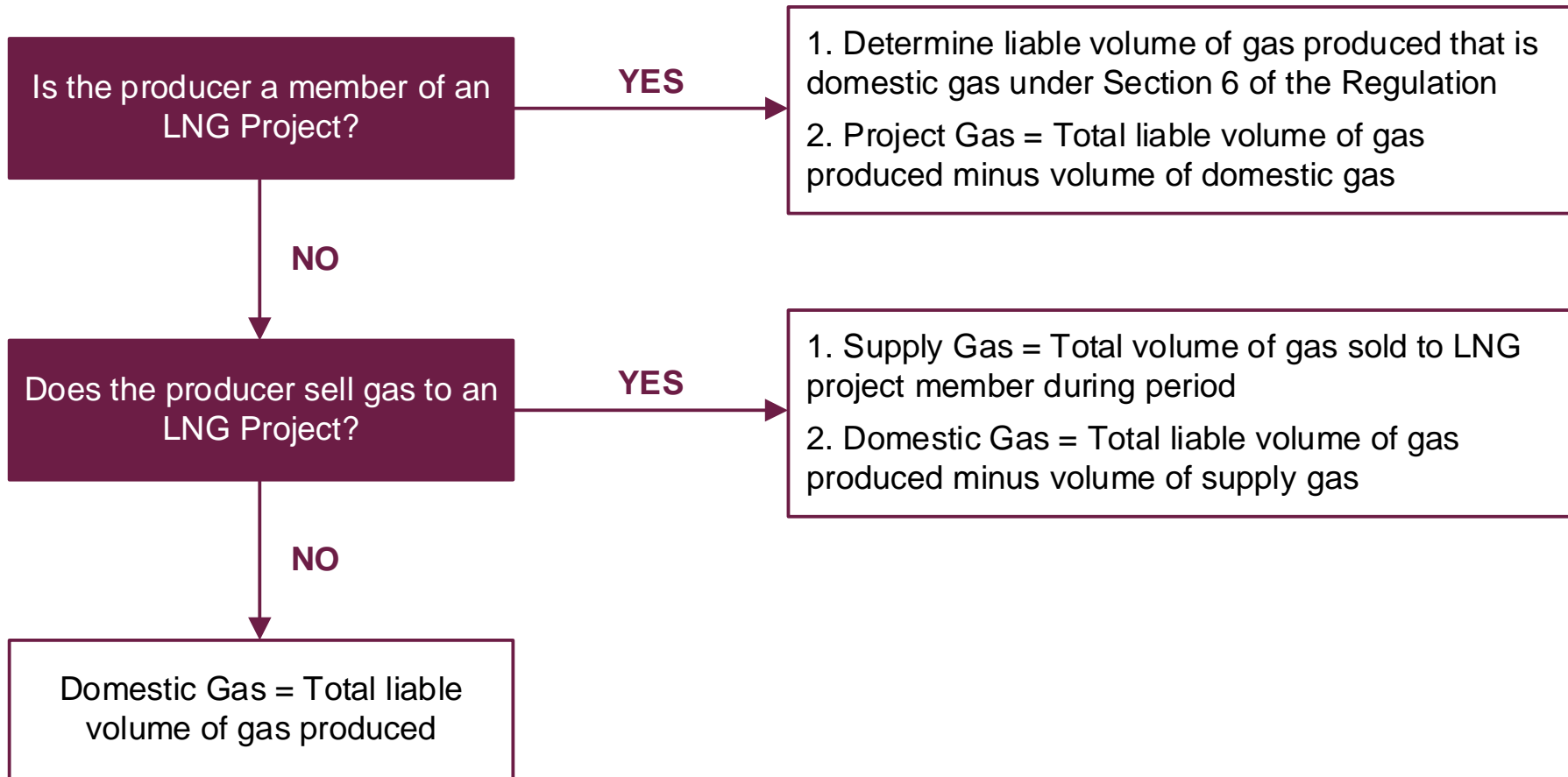
67. Where gas produced in a prior return period is included in the volume of gas otherwise determined as domestic gas—for example, gas stored at the end of the previous return period is then sold to a domestic purchaser in the current return period—the volume of domestic gas so determined must be reduced by the volume of that prior period gas.
68. It may be the case that prior period gas is partly used for a domestic gas purpose, such as making sales to domestic purchasers in the current return period, and partly used for conversion to LNG. In that case, where the producer can clearly identify the volume of prior period gas that is used for a domestic gas purpose, that amount may be deducted from the domestic gas volume otherwise determined.
69. If clear identification of the relevant prior period volume of gas is not possible, the alternative is for the producer to proportionally allocate the volume of prior period gas to the total volume determined to be domestic gas above, based on the proportion that this domestic gas volume bears to the total volume of gas produced by the producer during the return period.
70. If it is not possible to determine that gas produced by an LNG project producer is domestic gas, it will be classified as project gas.
71. The volume of project gas and domestic gas so determined must equal the total volume of gas produced in the return period.
72. It is acknowledged that determination of the volume of project gas and domestic gas produced in a return period using this methodology (Reconciliation Method) may raise issues in classifying the volume of liable gas for a return period and any relevant prior period volumes that are included in current period volumes used<sup>24</sup> or sold.
73. Therefore, as an alternative to simplify compliance for producers, the Commissioner would support adoption of the following methodology (Direct Method) for determining the volume of project gas and domestic gas produced in a return period:
  - (a) Domestic gas = total volume of gas used or sold in the current return period in a way mentioned in section 6(1)(b) of the Regulation minus any prior period volume of gas used or sold in any way in the current return period
  - (b) Project gas = total volume of gas produced in return period minus domestic gas determined in (a).
74. Attachment 2 provides a worked example of the Reconciliation Method and Direct Method (see Example 3).
75. Where an LNG project producer purchases gas during a return period for a clear, demonstrable purpose of either supplementing its domestic gas sales or supplementing the gas available for conversion, the volumes determined using either of the above methods must be adjusted to reflect this. That is, if the producer purchases gas to supplement the gas available for sale to domestic purchasers, the volume of domestic gas determined using either of the above methodologies must be reduced by the purchased volume, with a consequent increase in the volume of gas that is then taken to be project gas for the period. Conversely, if the producer can clearly demonstrate that gas is purchased for the sole purpose of supplementing the volume it converts to LNG, the volume of domestic gas determined using either of the above methodologies will be unaffected as it all relates to gas produced by the producer. The volume of project gas then determined (by subtracting the volume of domestic gas from the total liable volume of gas produced in the period) will reflect this.

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<sup>24</sup> References to gas being used include it being flared, vented or stored.

76. If there is no clear, demonstrable purpose for which gas is purchased by an LNG project producer in a return period, the alternative is for the producer to either:
- (a) reduce the volume of domestic gas determined using the Reconciliation Method or Direct Method to reflect the volume of gas purchased in the return period, based on the proportion that the domestic gas volume bears to the total volume of gas produced in the period
- or
- (b) to simplify compliance, treat all of the purchased gas as being referable to domestic gas and reduce the volume of domestic gas determined using the Reconciliation Method or Direct Method.
77. As noted, if there is no volume of domestic gas produced by an LNG project producer in a return period, including where it is all treated as relating to purchased gas under paragraph 76(b), all of the gas produced by the producer during the period will be project gas.
78. Attachment 2 provides a worked example of how purchased gas may be taken into account for determining the volume of project gas and domestic gas produced in a return period (see Example 4).

CLASSIFICATION OF GAS FLOWCHART



## EXAMPLES—GAS CLASSIFICATION

### WORKED EXAMPLE 1: NON-LNG PROJECT PRODUCER—NO GAS PURCHASED

#### FACTS

ABC Co produces CSG and natural gas. ABC Co is not a member of an LNG project.

At the beginning of the March 2021 return period ABC Co has in storage 150,000 GJ of gas (prior period gas) that was produced in the December 2020 return period. ABC Co can clearly identify that 125,000 GJ of this gas was sold to LNG project buyers in the March 2021 period.

During the March 2021 quarter ABC Co:

- produces 1,000,000 GJ of gas
- sells 800,000 GJ of gas to LNG project buyers
- sells 300,000 GJ of gas to domestic purchasers
- has 50,000 GJ of gas in storage at the end of the March 2021 period.

#### RECONCILIATION METHOD FOR DETERMINING SUPPLY GAS AND DOMESTIC GAS

Using the Reconciliation Method, the volume of supply gas and domestic gas is determined as follows:

*Supply gas:* 800,000 GJ [total sold to LNG project buyers] – 125,000 GJ [prior period gas sold to LNG project buyers] = **675,000 GJ**

*Domestic gas:* 300,000 GJ [total sold to domestic purchasers] + 50,000 GJ [gas stored at end of period] – 25,000 GJ [prior period gas] = **325,000 GJ**

Supply gas + domestic gas = 1,000,000 GJ = total liable volume of gas.

#### DIRECT METHOD FOR DETERMINING SUPPLY GAS AND DOMESTIC GAS

Using the Direct Method, the volume of supply gas and domestic gas is determined as follows:

*Supply gas:* **800,000 GJ** [total sold to LNG project buyers]

*Domestic gas:* 1,000,000 GJ [total volume produced] – 800,000 GJ [supply gas] = **200,000 GJ** [total volume in period less supply gas volume]

Supply gas + domestic gas = 1,000,000 GJ = total liable volume of gas.

## WORKED EXAMPLE 2: NON-LNG PROJECT PRODUCER—GAS PURCHASED

### FACTS

ABC Co produces CSG and natural gas. ABC Co is not a member of an LNG project.

At the beginning of the March 2021 return period ABC Co has in storage 150,000 GJ of gas (prior period gas) that was produced in the December 2020 return period. ABC Co can clearly identify that 125,000 GJ of this gas was sold to LNG project buyers in the March 2021 period.

During the March 2021 quarter ABC Co:

- produces 1,000,000 GJ of gas
- purchases 350,000 GJ of gas
- sells 975,000 GJ of gas to LNG project buyers
- sells 475,000 GJ of gas to domestic purchasers
- has 50,000 GJ of gas in storage at the end of the March 2021 period.

In relation to the purchased gas, ABC Co can clearly identify that half of the gas purchased (175,000 GJ) was used for making sales of gas to LNG project buyers and half for making sales to domestic purchasers.

### RECONCILIATION METHOD FOR DETERMINING SUPPLY GAS AND DOMESTIC GAS

Using the Reconciliation Method adjusted for purchased gas, the volume of supply gas and domestic gas is determined as follows:

*Supply gas:* 975,000 GJ [total sold to LNG project buyers] – 125,000 GJ [prior period gas sold to LNG project buyers] = 850,000 GJ

Adjustment for purchased gas = 850,000 GJ – 175,000 GJ [purchased gas sold to LNG project buyers] = **675,000 GJ**

*Domestic gas:* 475,000 GJ [total sold to domestic purchasers] + 50,000 GJ [gas stored at end of period] – 25,000 GJ [prior period gas] = 500,000 GJ

Adjustment for purchased gas = 500,000 GJ – 175,000 GJ [purchased gas sold to domestic purchasers] = **325,000 GJ**

### **Variation 1**

In relation to the purchased gas, ABC Co cannot clearly identify how the gas was used in the period. ABC Co decides to apportion the volume of purchased gas having regard to the volumes of supply gas and domestic gas otherwise taken to be produced [850,000 GJ + 500,000 GJ = 1,350,000 GJ] as follows:

Proportional allocation of purchased gas volume to supply gas =  $850,000 \div 1,350,000 \times 350,000$  GJ = 220,370 GJ.

Proportional allocation of purchased gas volume to domestic gas =  $500,000 \div 1,350,000 \times 350,000$  GJ = 129,630 GJ

*Supply gas:* 975,000 GJ [total sold to LNG project buyers] – 125,000 GJ [prior period gas sold to LNG project buyers] = 850,000 GJ

Adjustment for purchased gas = 850,000 GJ – 220,370 GJ [purchased gas sold to LNG project buyers] = **629,630 GJ**

*Domestic gas:* 475,000 GJ [total sold to domestic purchasers] + 50,000 GJ [stored at end of period] – 25,000 GJ [prior period gas] = 500,000 GJ

Adjustment for purchased gas = 500,000 GJ – 129,630 GJ [purchased gas sold to domestic purchasers] = **370,370 GJ**

### **Variation 2**

In relation to the purchased gas, ABC Co cannot clearly identify how the gas was used in the period. ABC Co decides to treat all purchased gas as being referable to domestic gas.

*Supply gas:* 975,000 GJ [total sold to LNG project buyers] – 125,000 GJ [prior period gas sold to LNG project buyers] = **850,000 GJ**

*Domestic gas:* 475,000 GJ [total sold to domestic purchasers] + 50,000 GJ [stored at end of period] – 25,000 GJ [prior period gas] = 500,000 GJ

Adjustment for purchased gas = 500,000 GJ – 350,000 GJ [purchased gas deemed sold to domestic purchasers] = **150,000 GJ**

## DIRECT METHOD FOR DETERMINING SUPPLY GAS AND DOMESTIC GAS

Using the Direct Method, the volume of supply gas and domestic gas is determined as follows:

*Supply gas:* 975,000 GJ [total sold to LNG project buyers] – 175,000 GJ [purchased gas sold to LNG project buyers] = **800,000 GJ**

*Domestic gas:* 1,000,000 GJ [total volume produced] – 800,000 GJ [supply gas] = **200,000 GJ** [total volume in period less supply gas volume]

### **Variation 1**

In relation to the purchased gas, ABC Co cannot clearly identify how the gas was used in the period. ABC Co decides to apportion the volume of purchased gas having regard to the volume of supply gas and domestic gas otherwise taken to be produced [975,000 GJ + 25,000 GJ = 1,000,000 GJ] as follows:

Proportional allocation of purchased gas volume to supply gas =  $975,000 \div 1,000,000 \times 350,000$  GJ = 341,250 GJ

*Supply gas:* 975,000 GJ [total sold to LNG project buyers] – 341,250 GJ [purchased gas sold to LNG project buyers] = **633,750 GJ**

*Domestic gas:* 1,000,000 GJ [total volume produced] – 633,750 GJ [supply gas] = **366,250 GJ**

### **Variation 2**

In relation to the purchased gas, ABC Co cannot clearly identify how the gas was used in the period. ABC Co decides to treat all purchased gas as being referable to domestic gas.

*Supply gas:* **975,000 GJ** [total sold to LNG project buyers]

*Domestic gas:* 1,000,000 GJ [total volume produced] – 975,000 GJ [supply gas] = **25,000 GJ**



## WORKED EXAMPLE 3: LNG PROJECT PRODUCER—NO GAS PURCHASED

### FACTS

ABC Co produces CSG and natural gas as a member of an LNG project.

At the beginning of the March 2021 return period ABC Co has in storage 150,000 GJ of gas (prior period gas) that was produced in the December 2020 return period. ABC Co can clearly identify that 125,000 GJ of this gas was sold to domestic buyers in the March 2021 period.

During the March 2021 quarter ABC Co:

- produces 1,000,000 GJ of gas
- sells 300,000 GJ of gas to domestic purchasers
- has 50,000 GJ of gas in storage at the end of the March 2021 period.

### RECONCILIATION METHOD FOR DETERMINING PROJECT GAS AND DOMESTIC GAS

Using the Reconciliation Method, the volume of project gas and domestic gas is determined as follows:

*Domestic gas:* 300,000 GJ [total sold to domestic purchasers] – 125,000 GJ [prior period gas] =  
**175,000 GJ<sup>25</sup>**

*Project gas:* 1,000,000 GJ [total volume produced] – 175,000 GJ [domestic gas] = **825,000 GJ**

Project gas + domestic gas = 1,000,000 GJ = total liable volume of gas.

#### **Variation**

If it was not possible to identify how the prior period gas was used in the March 2021 quarter, ABC Co may proportionally allocate that volume between the domestic gas and project gas volumes (300,000 GJ + 700,000 GJ = 1,000,000 GJ) otherwise determined as follows:

Proportional allocation of prior period gas volume to domestic gas =  $300,000 \div 1,000,000 \times 150,000$  GJ = 45,000 GJ

*Domestic gas:* 300,000 GJ [total sold to domestic purchasers] – 45,000 GJ [prior period gas] =  
**255,000 GJ<sup>26</sup>**

*Project gas:* 1,000,000 GJ [total volume produced] – 255,000 GJ [domestic gas] = **745,000 GJ**

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<sup>25</sup> The gas stored at the end of the period is not domestic gas, but rather project gas.

<sup>26</sup> The gas stored at the end of the period is not domestic gas, but rather project gas.

## DIRECT METHOD FOR DETERMINING PROJECT GAS AND DOMESTIC GAS

Using the Direct Method, the volume of project gas and domestic gas is determined as follows:

*Domestic gas:* 300,000 GJ [total sold to domestic purchasers] – 150,000 GJ [total prior period gas]  
= **150,000 GJ**<sup>27</sup>

*Project gas:* 1,000,000 GJ [total volume produced] – 150,000 GJ [domestic gas] = **850, 000 GJ**

Project gas + domestic gas = 1,000,000 GJ = total liable volume of gas.

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<sup>27</sup> The gas stored at the end of the period is not domestic gas, but rather project gas.

## WORKED EXAMPLE 4: LNG PROJECT PRODUCER—GAS PURCHASED

### FACTS

ABC Co produces CSG and natural gas as a member of an LNG project.

At the beginning of the March 2021 return period ABC Co has in storage 150,000 GJ of gas (prior period gas) that was produced in the December 2020 return period. ABC Co can clearly identify that 125,000 GJ of this gas was sold to non-LNG project buyers (domestic buyers) in the March 2021 period.

During the March 2021 quarter ABC Co:

- produces 1,000,000 GJ of gas
- purchases 350,000 GJ of gas
- sells 300,000 GJ of gas to domestic purchasers
- has 50,000 GJ of gas in storage at the end of the March 2021 period.

In relation to the purchased gas, ABC Co can clearly identify that half of the gas purchased (175,000 GJ) was used for sales of gas to domestic purchasers and half for conversion to LNG.

### RECONCILIATION METHOD FOR DETERMINING PROJECT GAS AND DOMESTIC GAS

Using the Reconciliation Method adjusted for purchased gas, the volume of project gas and domestic gas is determined as follows:

*Domestic gas:* 300,000 GJ [total sold to domestic purchasers] – 125,000 GJ [prior period gas sold to domestic purchasers] = 175,000 GJ

Adjustment for purchased gas = 175,000 GJ – 175,000 GJ [purchased gas sold to domestic purchasers] = **Nil**

*Project gas:* 1,000,000 GJ [total volume produced] – 0 GJ [domestic gas] = **1,000,000 GJ**

No explicit adjustment is made for purchased gas as this is reflected in the domestic gas volume and in turn the project gas volume.

Project gas + domestic gas = 1,000,000 GJ = total liable volume of gas.

### **Variation 1**

In relation to the purchased gas, ABC Co cannot clearly identify how the gas was used in the period. ABC Co decides to apportion the volume of purchased gas having regard to the volumes of project gas and domestic gas otherwise taken to be produced [175,000 GJ + 825,000 GJ = 1,000,000 GJ] as follows:

Proportional allocation of purchased gas volume to domestic gas =  $175,000 \div 1,000,000 \times 350,000$  GJ = 61,250 GJ

*Domestic gas:* 300,000 GJ [total sold to domestic purchasers] – 125,000 GJ [prior period gas] = 175,000 GJ

Adjustment for purchased gas = 175,000 GJ – 61,250 GJ [purchased gas sold to domestic purchasers] = **113,750 GJ**

*Project gas:* 1,000,000 GJ [total volume produced] – 113,750 GJ [domestic gas] = **886,250 GJ**

No explicit adjustment is made for purchased gas as this is reflected in the domestic gas volume and in turn the project gas volume.

### **Variation 2**

In relation to the purchased gas, ABC Co cannot clearly identify how the gas was used in the period. ABC Co decides to treat all purchased gas as being referable to domestic gas.

*Domestic gas:* 300,000 GJ [total sold to domestic purchasers] – 125,000 GJ [prior period gas sold to domestic purchasers] = 175,000 GJ

Adjustment for purchased gas = 175,000 GJ – 350,000 GJ [total purchased gas] = **Nil**

*Project gas:* 1,000,000 GJ [total volume produced] – 0 GJ [domestic gas] = **1,000,000 GJ**

No explicit adjustment is made for purchased gas as this is reflected in the domestic gas volume and in turn the project gas volume.

## DIRECT METHOD FOR DETERMINING PROJECT GAS AND DOMESTIC GAS

Using the Direct Method, the volume of project gas and domestic gas is determined as follows:

*Domestic gas:* 300,000 GJ [total sold to domestic purchasers] – 150,000 GJ [total prior period gas]  
= 150,000 GJ

Adjustment for purchased gas = 150,000 GJ – 175,000 GJ [purchased gas sold to domestic purchasers] = **Nil**

*Project gas:* 1,000,000 GJ [total volume produced] – 0 GJ [domestic gas] = **1,000,000 GJ**

No adjustment is made for purchased gas as this is reflected in the domestic gas volume and in turn the project gas volume.

### **Variation 1**

In relation to the purchased gas, ABC Co cannot clearly identify how the gas was used in the period. ABC Co decides to apportion the volume of purchased gas having regard to the volumes of project gas and domestic gas otherwise taken to be produced [150,000 GJ + 850,000 GJ = 1,000,000 GJ] as follows:

Proportional allocation of purchased gas volume to domestic gas =  $150,000 \div 1,000,000 \times 350,000$  GJ  
= 52,500 GJ

*Domestic gas:* 300,000 GJ [total sold to domestic purchasers] – 150,000 GJ [total prior period gas]  
= 150,000 GJ

Adjustment for purchased gas = 150,000 GJ – 52,500 GJ [purchased gas sold to domestic purchasers] = **97,500 GJ**

*Project gas:* 1,000,000 GJ [total volume produced] – 97,500 GJ [domestic gas] = **902,500 GJ**

No explicit adjustment is made for purchased gas as this is reflected in the domestic gas volume and in turn the project gas volume.

### **Variation 2**

In relation to the purchased gas, ABC Co cannot clearly identify how the gas was used in the period. ABC Co decides to treat all purchased gas as being referable to domestic gas.

*Domestic gas:* 300,000 GJ [total sold to domestic purchasers] – 150,000 GJ [total prior period gas]  
= 150,000 GJ

Adjustment for purchased gas = 150,000 GJ – 350,000 GJ [total purchased gas] = **Nil**

*Project gas:* 1,000,000 GJ [total volume produced] – 0 GJ [domestic gas] = **1,000,000 GJ**

No explicit adjustment is made for purchased gas as this is reflected in the domestic gas volume and in turn the project gas volume.