

IT 2190 - Income Tax : Processed gas re-injected into a natural underground reservoir



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TAXATION RULING NO. IT 2190

INCOME TAX : PROCESSED GAS RE-INJECTED INTO A NATURAL
UNDERGROUND RESERVOIR

F.O.I. EMBARGO: May be released

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I 1199373	TRADING STOCK	6(1)
	RE-INJECTED PROCESSED GAS	28

PREAMBLE Techniques have been developed and are now used by enterprises carrying on mining operations in Australia for the recovery of gas whereby processed gas may be re-injected into, and stored in, a natural underground reservoir close to the place of original extraction. Storage in this manner facilitates the meeting of peak demand when an increase of required output may not otherwise be met.

2. Relevant Australian mining legislation provides that gas re-injected into a natural underground reservoir is the property of the Crown and is no longer owned by the person who originally extracted the gas. As a consequence royalty is not payable to the Crown in respect of the re-injected gas.

3. The re-injected gas is subsequently recovered by an operation which is understood to be very similar to the original mining operation. Total or even substantial recovery of the gas, however, is not guaranteed. Furthermore, the gas that is retrieved may be contaminated by impurities in the reservoir and have to go through some, and perhaps all, of the processing that the raw gas had previously undergone. The amount and quality of gas retrieved depends on such factors as the nature of the reservoir and the length of time that the gas has been stored.

RULING 4. In light of the above factors re-injected processed gas should not be regarded as trading stock for income tax purposes. Apart from the fact that property in the re-injected gas vests in the Crown, it is not practicable to say at the end of an income year what amount of the re-injected gas is present in the underground reservoir.

COMMISSIONER OF TAXATION

10 September 1985

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