

Hydroelectric Power Generation Penstock Exemptions

Social Service Tax Act

Penstock and related equipment may qualify for exemption under the *Social Service Tax Act* in two different ways, for the Production Machinery and Equipment exemption and a specific exemption for penstock.

Production Machinery and Equipment Exemption: Penstock and related equipment may qualify for exemption as production machinery and equipment if purchased by an eligible manufacturer and located at the manufacturing site. *This exemption applies primarily to large traditional hydroelectric storage projects where the penstock and power plant are located within the structure of the dam because it is on the manufacturing site.* Penstock that extends outside of the dam to the water source is generally not eligible for this exemption because it is located outside of the manufacturing site. For information on this exemption, please refer to [Bulletin SST 054, Manufacturers](#).

Specific Exemption for Penstock: An additional exemption, as outlined in this bulletin, is available for specified penstock and related equipment. This exemption applies regardless of whether the penstock and related equipment are located within a manufacturing site. The exemption was first established in June 2003 and applied only to run-of-river hydroelectric generation facilities that had penstock pipe with a minimum diameter of 30 cm. On February 18, 2004, the 30 cm requirement was replaced with a requirement that the power plant have a valid license under the *Water Act*. Effective February 16, 2005, this exemption is expanded to include hydro electric storage plants. As a result the penstock exemption now applies to all hydroelectric power plants that are validly licensed under the [Water Act](#).

Some alternative energy power projects qualify for an exemption from school tax on penstock systems and related improvements. Please refer to the notice – [New School Tax Exemption for Eligible Hydroelectric Power Producers](#), available on the ministry's website.

The information in this bulletin is provided for your convenience and guidance and is not a replacement for the legislation. The *Social Service Tax Act* and Regulations can be found on the web at www.gov.bc.ca/sbr

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WHAT PENSTOCK AND RELATED EQUIPMENT CAN BE PURCHASED WITHOUT PAYING PST?

The penstock equipment listed below may be purchased exempt from tax if the equipment:

- is manufactured machinery or equipment,
- is used at the point of diversion from the water source as penstock intake or diversion equipment, or as penstock pipe to provide water from the point of diversion from the water source to the power plant, and
- is part of a penstock system for a hydroelectric power plant that is validly licensed under the [Water Act](#).

Water Control

- **Control gates, intake valves and stoplogs** - controls water flow through the weir and into the penstock:
 - Control gate - stops water before it enters the penstock if the penstock fails, or if the penstock needs to be emptied
 - Stoplogs - stops water upstream of gates when dry maintenance of control gates, sluice gates or trash rack is needed
- **Inflatable rubber weirs and controls** – controls the head pond level and diverts the water into the penstock
- **Steel weirs and controls.**

Debris Control

- **Fish and sediment screens** – prevent fish and sediment from entering the penstock
- **Trash racks** (with or without self-clearing apparatus) – a screen structure that prevents debris from entering the penstock
- **Trash rake** (associated with, and may be attached to, the trash rack) – a machine that cleans the debris from the screen
- **Sluice gates** – removes sediment from the approach channel to the penstock

Penstock and Related Equipment

- **Expansion joints (pressure rated)** - controls steel stress if a penstock is exposed
- **Intake power supply** (penstock) – a generator
- **Manhole entrances** – for penstock inspection and cleaning
- **Manufactured pipe** – concrete, steel, iron, fibreglass, wood-staves or high density polyethylene
- **Pipe bridges** – supports the penstock over creeks or valleys
- **Pressure release valves and surge facilitators** – controls the pressure change or water hammer inside the penstock when water flow is stopped.
- **Ring girders** – supports the penstock between support footings
- **Stiffening rings** – adds strength at bends and wyes (Y-shaped parts)
- **Surface penstock pedestals**

- **Tunnel bulkheads, access hatches and drain valves**
- **Valves (air release and scour)** – used in uphill sections of penstock at either the high (air) or low point (scour)
- **Ventilation pipe (penstock)** – used to allow air to enter the penstock if a control gate is closed

HOW IS THE TAX EXEMPTION CLAIMED?

If you are registered as a vendor or lessor under the *Social Service Tax Act*, and the materials or equipment you wish to purchase meet the qualifying conditions, then you may lease or purchase penstock and related equipment without tax by providing your registration number to your supplier.

If you are not a registered vendor or lessor, then you must provide your supplier with a completed and signed *Certificate of Exemption* form ([FIN 453](#)).

Your supplier must retain the signed *Certificate of Exemption* form in their records to show why PST was not collected. Future exempt sales may be made to you on the basis of this signed certificate.

If you are a vendor or lessor and your customer has not provided you with a completed *Certificate of Exemption* for your records, then you may have to pay a penalty if the goods you sold were used for an ineligible purpose.

WHAT HAPPENS IF I DON'T GET A VALID WATER LICENSE FOR MY PROJECT?

You will have to pay PST on all your purchases unless they are otherwise exempted.

If you have purchased penstock and related equipment tax exempt prior to receiving a valid license through the *Water Act*, and then do not receive a license, you will owe PST on the full purchase price of the exempt penstock goods that you bought without tax. You will not be able to use a depreciation rate to calculate the PST owing. You must self-assess and send in the PST.

OTHER EXEMPTIONS FOR A HYDROELECTRIC PROJECT

Generation of electricity qualifies as the production or manufacture of tangible personal property. Machinery and equipment within the hydroelectric generating plant site may therefore qualify for the production machinery and equipment exemption.

More Info: [Bulletin 054](#), *Manufacturers*

TAXABLE SERVICES

A taxable service under the social service tax is any service provided to install, assemble, dismantle, repair, adjust, restore, recondition, refinish, or maintain tangible personal property (goods).

Services to real property are not taxable, nor are services to an exempt good. For example, if a surge facilitator is attached to real property (the land) in such a way that it becomes part of the real property you would not have to pay tax on any services to the surge facilitator. Services to specifically exempted pipe would also not be taxable.

More Info: [Bulletin SST 018](#), *Taxable Services*

ASSESSMENTS & APPEALS

Assessments, Interest and Penalties

If tax is not paid, collected and/or sent in as required, an assessment can be issued. Interest and a penalty may also apply.

More Info: [Bulletin GEN 005](#), *Penalty Policy for Assessments of Tax Due*

Appeal Process

You may have a right to appeal certain decisions. Appeals to the Minister must be submitted in writing, clearly set out the reasons for the appeal, and contain all relevant facts.

More Info: [Bulletin GEN 003](#), *Appeals of Tax Assessments or Disallowed Refunds*

NEED MORE INFO?

This bulletin is provided for convenience and guidance. If you still have questions call us at 604 660-4524 in Vancouver or toll-free at 1 877 388-4440 elsewhere in Canada or refer to the legislation.

Information is also on the web at www.gov.bc.ca/sbr While there, you can subscribe to our free electronic update service.

References: *Social Service Tax Act* Section 1, 5, 6, 9, 77, 98 and Regulation 15.1