HMRC - OT09100 - Expenditure - Ascertaining

OTA75\S3(1)(c)

Expenditure on ascertaining before or after the field is formally determined

the extent or characteristics of any oil-bearing area wholly or partly included in the field, or

what its reserves are,

is relievable under this subsection. This covers, for example, the cost of delineating the field boundaries and appraisal drilling aimed at determining the location and extent of reservoirs.

The subsection is concerned with an oil-bearing area wholly or partly included in the field. An oil-bearing area may be partly included in a field if, for example, the determined field is smaller than the geological field because there was insufficient information at the time of determination. If a structure partly included in the field is being appraised there is an expectation that the field will be redetermined to include the rest of the structure.

An appraisal well may actually be spudded outside the PRT boundary. Provided it can be demonstrated, on the facts pertaining at the spud date, that the purpose of the expenditure on the well was to evaluate an area wholly or partly within the field boundary (for example to test flow rates across a fault line), the expenditure may be allowed under this subsection. But the 5 kilometre limit applied by OTA75\S3(1)(a) (see OT09050) has no relevance here.

If a participator is ascertaining the characteristics of a structure known not to be part of a field but one that is nevertheless very close to a field, it may be contended that the work was intended to define part of the boundary against the field, and possibly to refine views on the field’s reserves. All such cases should be referred to the SCS authorising officer.

Ascertaining and supplement

It can be important to distinguish between ‘exploration’ wells and ‘appraisal’ wells Exploration expenditure, including the cost of wells, will be considered under Section 3(1)(a) ‘searching’ whilst appraisal wells fall within Section 3(1)(c) ‘ascertaining’. The distinction will also matter in relation to supplement; appraisal wells will usually qualify for supplement under OTA75\S3(5)(b) (see OT12250), whereas exploration wells will do so under OTA75\S3(5)(a) only up to field discovery, see OT12150. In cases of doubt the DECC may be able to provide background information and their own views on the well’s status. LB Oil & Gas will normally accept the DECC designation of any particular well. (Note also the potential significance of the designation of the drilling where claims under OTA75\S3(1)(a) are made based on the 5 km geographic test, see OT09050.)

‘Exempt gas’ fields

There are special rules in OTA75\S10(3A)-(3C) relating to expenditure otherwise allowable under OTA75\S3(1)(c) where the oil won from a field (or expected to be won) includes ‘exempt gas’, see OT13240.

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