HMRC - OT12250 - PRT: Supplement - Ascertaining The Extent Of Oil-Bearing Area

OTA75\S3(5)(b) allows supplement on expenditure incurred on ascertaining (whether before or after the PRT field is determined)

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

or what the reserves of that oil-bearing area are.

This covers the initial field appraisal costs including seismic and appraisal drilling as well as ongoing re-appraisal expenditure. However, care should be taken to establish that claims for expenditure incurred after the commencement of production are genuinely for such an ascertaining purpose. Occasionally, participators may make OTA75\SCH6 claims for overhead costs on the basis that the costs qualify for supplement under OTA75\S3(5)(b). Their argument is that they need to incur such expenditure (e.g. on geologists, geophysicists, reservoir engineers) in order to play a full part at joint venture meetings and in the decision making process, particularly in unitised fields. Often the activities involve nothing more than monitoring the operator’s performance and do not amount to ascertaining. If so, supplement should be disallowed.

For supplement on overheads generally, see OT12400.

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