HMRC - OT13875 - PRT: Non-Field Expenditure - Bottom Hole Contributions

‘Bottom hole contributions’, in essence payments for information, can occur when licensees in one block enter into an agreement with the licensees in an adjacent block. The latter will have drilled, or be about to drill, a well in their block and the licensees in the other block will be seeking, in return for the payment, to obtain the results of that well in order to see whether they affect their understanding of their own reservoir.

In the context of abortive exploration and exploration and appraisal, LB Oil & Gas’s view of such agreements is as follows:

Effect on payer

If the contributor agreed to meet part of the cost of drilling the well in question, either before the well was drilled or before it reached its target depth, then it can be accepted that the contributor and the recipient were carrying out the same activity, whether it was searching for oil or appraising an oil-bearing structure. The contributions will qualify for relief under OTA75\S5 or OTA75\S5A (as applicable).

If the well was drilled and completed and contributions made shortly afterwards, then the contributions may qualify for relief under OTA75\S5 or OTA75\S5A (as applicable).

Effect on recipient

The receipt will reduce the amount of the recipient’s allowable expenditure, see OT13850 (receipts pre 16 March 1983) and OT13860 (receipts on or after 16 March 1993).

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