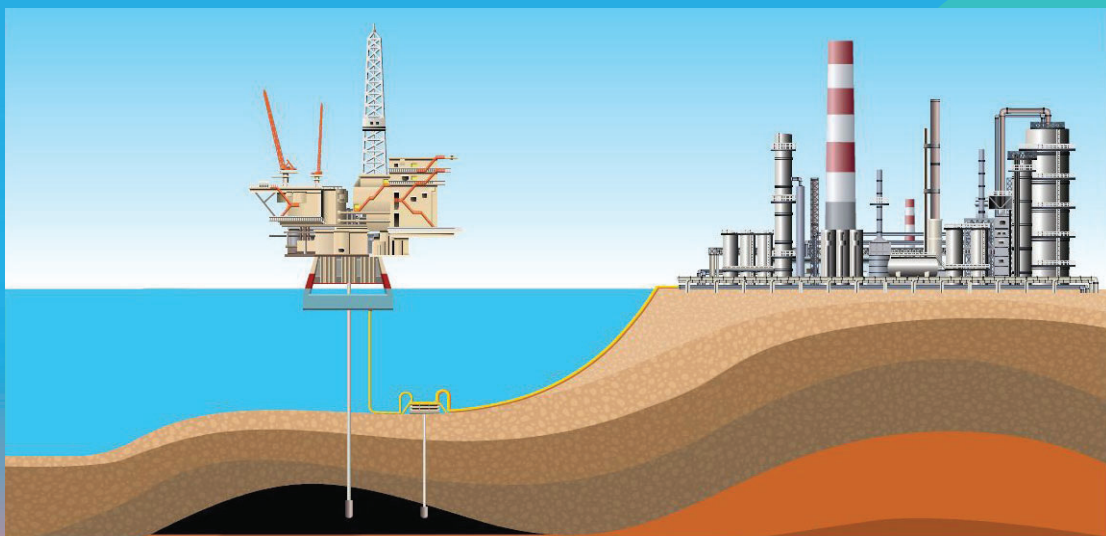


1

Offshore Cost Recovery



2

Offshore Cost Components

- ▶ Drilling Costs
 - ▶ Roughly 60% of Drilling & Completion Costs
 - ▶ Examples: Mud and Drilling Fluids, Fuel Costs, Offshore Support Services, Casings, Drilling Bits
- ▶ Completion Costs
 - ▶ Examples: Completion Fluid, Well Stimulation, Well Head Equipment
- ▶ Injection Wells Costs
 - ▶ Additional Wells to Reinject Water/Gas to Maintain Reservoir Pressure
- ▶ Facility Costs
 - ▶ Examples: Floating Facilities and Sub-sea Tiebacks
- ▶ Operational Costs
- ▶ Transportation Costs
 - ▶ Example: Connections to Pre-existing Infrastructure

3

Intangible Drilling Costs – In General

- ▶ § 1.612-4 Charges to Capital and to Expense in Case of Oil and Gas Wells
 - ▶ Intangible Drilling Costs Under Development of Oil and Gas Properties May be Chargeable to Capital or Expensed
- ▶ Intangible Drilling Costs Under § 263(c)
 - ▶ Types of Costs Included: Costs incident to and necessary for the drilling of wells and the preparation of wells for the production of oil or gas
 - ▶ Examples: Wages, Fuel, Repairs, Hauling, Supplies
 - ▶ Activities: Drilling, shooting, cleaning of wells, clearing of ground, draining, geological works as necessary for preparation of drilling of wells
 - ▶ Does Not Apply to Costs with Salvage Value

4

Intangible Drilling Costs – In General

- ▶ § 291(b)(1)(A) – Special Rules for Treatment of Intangible Drilling Costs and Mineral Exploration and Development Costs
 - ▶ Integrated Oil Companies Limited to 70% Immediate Deduction of IDC Costs
 - ▶ Definition of "Integrated Companies" - Any producer of crude oil to whom subsection (c) of [section 613A](#) does not apply by reason of paragraph (2) or (4) of section 613A(d)
 - ▶ Remaining 30% is Amortized over Sixty Months

5

Drilling Well Types



Drilling Well Types

- ▶ Exploratory
- ▶ Appraisal
- ▶ Developmental (Production)

6

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