STATE OF OKLAHOMA

2nd Session of the 48th Legislature (2002)

HOUSE BILL HB2031 By: Rice

AS INTRODUCED

An Act relating to revenue and taxation; defining terms; providing for determination of endangered leases for purposes of gross production taxes; prescribing methodology for determination of endangered lease status; providing exemption for production from endangered leases; prescribing exemption amounts; providing for apportionment of revenue; requiring documentation; imposing certain duties on the Oklahoma Tax Commission; requiring verification by Oklahoma Corporation Commission; providing for release of information to Oklahoma Commission on Marginally Producing Oil and Gas Wells; providing for gross production tax reduction; providing for codification; providing an effective date; and declaring an emergency.

BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

SECTION 1. NEW LAW A new section of law to be codified in the Oklahoma Statutes as Section 1001.4 of Title 68, unless there is created a duplication in numbering, reads as follows:

A. As used in this section, “endangered lease” means any oil or gas lease operated at a net profit that is less than the gross production taxes paid after normal operating expense, overhead expense, royalty expense and gross production taxes are deducted or that has an average annual oil and gas sales per active lease well equal to or less than three (3) barrels of oil equivalent per day.

B. Determination of the endangered lease status shall be made by taking the gross revenue of that lease for the previous twenty-four (24) months (calculated as the two previous calendar years) and subtracting the normal seven percent (7%) gross production taxes, royalties, operating expenses and overhead costs of the lease for that same time period. Normal operating costs include expendable workover and recompletion costs. Standard accounting principles shall be used for allocated internal labor, supervision, tool usage and overhead charges. For the purpose of this calculation, depreciation, depletion or intangible drilling costs shall not be included as lease operating expenses.

C. An endangered lease may be determined by the average oil and gas sales from a lease divided by the number of active wells on the lease over a twenty-four month period (calculated as two previous calendar years). Volumes of natural gas shall be converted into barrels of oil equivalent at a ratio of eight (8) m.c.f. of gas to one (1) barrel of oil. An active lease well is defined as any production, injection, water supply, disposal or service well that is fully equipped and actively benefits the lease's production during the full time period designated.

D. When certified as an endangered lease pursuant to the provisions of this section, oil and gas sales from an endangered lease shall be eligible for an exemption from the gross production tax levied in the following amounts:

1. If the gross production tax rate levied is seven percent (7%) or more, then the exemption shall equal six-sevenths (6/7) of the gross production tax levied;

2. If the gross production tax rate levied is four percent (4%), the the exemption shall equal three-fourths (3/4) of the gross production tax levied; and

3. If the gross production tax rate levied is one percent (1%), then no exemption shall apply.

E. Notwithstanding the exemption granted pursuant to this section, the one percent (1%) collected shall be apportioned fifty percent (50%) to the County Highway Fund and fifty percent (50%) to the appropriate local school district.

F. Any operator making application for endangered lease certification under the provisions of this section shall submit documentation to the Tax Commission, as determined by the Tax Commission to be appropriate and necessary. This documentation can include, but not be limited to, the operator's federal income tax return for the previous two (2) years for said lease, lease well count by type, and if applicable, lease revenue and cost information.

G. The Tax Commission shall have sole authority to determine if any lease qualifies for certification as an endangered lease and shall make the determination within sixty (60) days after an application is filed for an endangered lease certification. The Tax Commission shall promulgate rules governing the certification process.

H. The Oklahoma Corporation Commission shall verify any active well claim, if requested by the Tax Commission for audit purposes.

I. The statistical data collected in the certification process shall be shared with the Commission on Marginally Producing Oil and Gas Wells to better identify and serve the needs of the marginal and endangered wells.

J. The first purchaser of the crude oil or natural gas or remitter of taxes shall apply the gross production tax reduction from certified leases.

SECTION 2. This act shall become effective July 1, 2002.

SECTION 3. It being immediately necessary for the preservation of the public peace, health and safety, an emergency is hereby declared to exist, by reason whereof this act shall take effect and be in full force from and after its passage and approval.

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