

1 STATE OF OKLAHOMA

2 2nd Session of the 54th Legislature (2014)

3 COMMITTEE SUBSTITUTE
4 FOR ENGROSSED
5 HOUSE BILL 2562

By: Hickman and Dank of the
House

6 and

7 Marlatt of the Senate

8
9 COMMITTEE SUBSTITUTE

10 An Act relating to gross production tax incentives;
11 amending 68 O.S. 2011, Section 1001, as last amended
12 by Section 1, Chapter 401, O.S.L. 2013 (68 O.S. 2013,
13 Section 1001), which relates to gross production;
14 modifying termination date for certain tax
15 incentives; and declaring an emergency.

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

17 SECTION 1. AMENDATORY 68 O.S. 2011, Section 1001, as
18 last amended by Section 1, Chapter 401, O.S.L. 2013 (68 O.S. Supp.
19 2013, Section 1001), is amended to read as follows:

20 Section 1001. A. There is hereby levied upon the production of
21 asphalt, ores bearing lead, zinc, jack and copper a tax equal to
22 three-fourths of one percent (3/4 of 1%) on the gross value thereof.

23 B. 1. Effective January 1, 1999, through June 30, 2013, except
24 as otherwise exempted pursuant to subsections D, E, F, G, H, I and J
of this section, there is hereby levied upon the production of oil a

1 tax as set forth in this subsection on the gross value of the
2 production of oil based on a per barrel measurement of forty-two
3 (42) U.S. gallons of two hundred thirty-one (231) cubic inches per
4 gallon, computed at a temperature of sixty (60) degrees Fahrenheit.
5 If the average price of Oklahoma oil as determined by the Oklahoma
6 Tax Commission pursuant to the provisions of paragraph 3 of this
7 subsection equals or exceeds Seventeen Dollars (\$17.00) per barrel,
8 then the tax shall be seven percent (7%). If the average price of
9 Oklahoma oil as determined by the Tax Commission pursuant to
10 paragraph 3 of this subsection is less than Seventeen Dollars
11 (\$17.00) but is equal to or exceeds Fourteen Dollars (\$14.00) per
12 barrel, then the tax shall be four percent (4%). If the average
13 price of Oklahoma oil as determined by the Tax Commission pursuant
14 to paragraph 3 of this subsection is less than Fourteen Dollars
15 (\$14.00) per barrel, then the tax shall be one percent (1%).

16 2. Effective July 1, 2013, except as otherwise exempted
17 pursuant to subsections D, E, F, G, H, I and J of this section,
18 there shall be levied upon the production of oil a tax equal to
19 seven percent (7%) of the gross value of the production of oil based
20 on a per barrel measurement of forty-two (42) U.S. gallons of two
21 hundred thirty-one (231) cubic inches per gallon, computed at a
22 temperature of sixty (60) degrees Fahrenheit.

23 3. Effective January 1, 1999, through June 30, 2013, the
24 average price of Oklahoma oil for purposes of this section shall be

1 computed by the Tax Commission based on the total value of oil
2 reported each month that is subject to the tax levied under this
3 section. At the first of each month, the Tax Commission shall
4 compute the average price paid per barrel of oil reported on the
5 monthly tax report for the most current production month on file.
6 The average price as computed by the Tax Commission shall be used to
7 determine the applicable tax rate for the third month following
8 production. Effective July 1, 2002, through June 30, 2013, the
9 average price of gas for purposes of this section shall be computed
10 by the Tax Commission based on the total value of gas reported each
11 month that is subject to the tax levied by this section. At the
12 first of each month, the Tax Commission shall compute the average
13 price paid per thousand cubic feet (mcf) of gas as reported on the
14 monthly tax report for the most current production month on file.
15 The average price as computed by the Tax Commission shall be used to
16 determine the applicable tax rate for the third month following
17 production.

18 4. Effective July 1, 2002, through June 30, 2013, except as
19 otherwise exempted pursuant to subsections D, E, F, G, H, I and J of
20 this section, there is hereby levied upon the production of gas a
21 tax as set forth in this subsection on the gross value of the
22 production of gas. If the average price of gas as determined by the
23 Tax Commission pursuant to the provisions of paragraph 3 of this
24 subsection equals or exceeds Two Dollars and ten cents (\$2.10) per

1 thousand cubic feet (mcf), then the tax shall be seven percent (7%).
2 If the average price of gas as determined by the Tax Commission
3 pursuant to the provisions of paragraph 3 of this subsection is less
4 than Two Dollars and ten cents (\$2.10) per thousand cubic feet (mcf)
5 but is equal to or exceeds One Dollar and seventy-five cents (\$1.75)
6 per thousand cubic feet (mcf), then the tax shall be four percent
7 (4%). If the average price of gas as determined by the Tax
8 Commission pursuant to the provisions of paragraph 3 of this
9 subsection is less than One Dollar and seventy-five cents (\$1.75)
10 per thousand cubic feet (mcf), then the tax shall be one percent
11 (1%).

12 5. Effective July 1, 2013, except as otherwise exempted
13 pursuant to subsections D, E, F, G, H, I and J of this section,
14 there shall be levied a tax equal to seven percent (7%) of the gross
15 value of the production of gas.

16 C. The taxes hereby levied shall also attach to, and are levied
17 on, what is known as the royalty interest, and the amount of such
18 tax shall be a lien on such interest.

19 D. 1. Except as otherwise provided in this section, any
20 incremental production attributable to the working interest owners
21 which results from an enhanced recovery project shall be exempt from
22 the gross production tax levied pursuant to this section from the
23 project beginning date until project payback is achieved for new
24 enhanced recovery projects or until project payback is achieved but

1 not to exceed a period of thirty-six (36) months for tertiary
2 enhanced recovery projects existing on July 1, 1988. This exemption
3 shall take effect July 1, 1988, and shall apply to enhanced recovery
4 projects approved or having a project beginning date prior to July
5 1, 1993. Project payback pursuant to this paragraph for enhanced
6 recovery projects qualifying for this exemption on or after July 1,
7 1990, and on or before June 30, 1993, shall be determined by
8 appropriate payback indicators which will not include any expenses
9 beyond the completion date of the well. Project payback pursuant to
10 this paragraph for enhanced recovery projects qualifying for this
11 exemption on or after October 17, 1987, and on or before June 30,
12 1990, shall be determined by appropriate payback indicators as
13 previously established and allowed by the Tax Commission for
14 projects qualifying during such period.

15 2. Except as otherwise provided in this section, for secondary
16 recovery projects approved and having a project beginning date on or
17 after July 1, 1993, and before July 1, 2000, any incremental
18 production attributable to the working interest owners which results
19 from such secondary recovery projects shall be exempt from the gross
20 production tax levied pursuant to this section from the project
21 beginning date until project payback is achieved but not to exceed a
22 period of ten (10) years. Project payback pursuant to this
23 paragraph shall be determined by appropriate payback indicators

1 which will provide for the recovery of capital expenses and fifty
2 percent (50%) of operating expenses, in determining project payback.

3 3. Except as otherwise provided in this section, for secondary
4 recovery projects approved or having an initial project beginning
5 date on or after July 1, 2000, and before July 1, ~~2014~~ 2015, any
6 incremental production attributable to the working interest owners
7 which results from such secondary recovery projects shall be exempt
8 from the gross production tax levied pursuant to this section for a
9 period not to exceed five (5) years from the initial project
10 beginning date or for a period ending upon the termination of the
11 secondary recovery process, whichever occurs first.

12 4. Except as otherwise provided in this section, for tertiary
13 recovery projects approved and having a project beginning date on or
14 after July 1, 1993, and before July 1, ~~2014~~ 2015, any incremental
15 production attributable to the working interest owners which results
16 from such tertiary recovery projects shall be exempt from the gross
17 production tax levied pursuant to this section from the project
18 beginning date until project payback is achieved, but not to exceed
19 a period of ten (10) years. Project payback pursuant to this
20 paragraph shall be determined by appropriate payback indicators
21 which will provide for the recovery of capital expenses and
22 operating expenses, excluding administrative expenses, in
23 determining project payback. The capital expenses of pipelines
24 constructed to transport carbon dioxide to a tertiary recovery

1 project shall not be included in determining project payback
2 pursuant to this paragraph.

3 5. The provisions of this subsection shall also not apply to
4 any enhanced recovery project using fresh water as the primary
5 injectant, except when using steam.

6 6. For purposes of this subsection:

7 a. "incremental production" means the amount of crude oil
8 or other liquid hydrocarbons which is produced during
9 an enhanced recovery project and which is in excess of
10 the base production amount of crude oil or other
11 liquid hydrocarbons. The base production amount shall
12 be the average monthly amount of production for the
13 twelve-month period immediately prior to the project
14 beginning date minus the monthly rate of production
15 decline for the project for each month beginning one
16 hundred eighty (180) days prior to the project
17 beginning date. The monthly rate of production
18 decline shall be equal to the average extrapolated
19 monthly decline rate for the twelve-month period
20 immediately prior to the project beginning date as
21 determined by the Corporation Commission based on the
22 production history of the field, its current status,
23 and sound reservoir engineering principles, and
24

1 b. "project beginning date" means the date on which the
2 injection of liquids, gases, or other matter begins on
3 an enhanced recovery project.

4 7. The Corporation Commission shall promulgate rules for the
5 qualification for this exemption which shall include, but not be
6 limited to, procedures for determining incremental production as
7 defined in subparagraph a of paragraph 6 of this subsection, and the
8 establishment of appropriate payback indicators as approved by the
9 Tax Commission for the determination of project payback for each of
10 the exemptions authorized by this subsection.

11 8. For new secondary recovery projects and tertiary recovery
12 projects approved by the Corporation Commission on or after July 1,
13 1993, and before July 1, ~~2014~~ 2015, such approval shall constitute
14 qualification for an exemption.

15 9. Any person seeking an exemption shall file an application
16 for such exemption with the Tax Commission which, upon determination
17 of qualification by the Corporation Commission, shall approve the
18 application for such exemption.

19 10. The Tax Commission may require any person requesting such
20 exemption to furnish information or records concerning the exemption
21 as is deemed necessary by the Tax Commission.

22 11. Upon the expiration of the exemption granted pursuant to
23 this subsection, the Tax Commission shall collect the gross
24 production tax levied pursuant to this section.

1 E. 1. Except as otherwise provided in this section, the
2 production of oil, gas or oil and gas from a horizontally drilled
3 well producing prior to July 1, 2011, which production commenced
4 after July 1, 2002, shall be exempt from the gross production tax
5 levied pursuant to subsection B of this section from the project
6 beginning date until project payback is achieved but not to exceed a
7 period of forty-eight (48) months commencing with the month of
8 initial production from the horizontally drilled well. For purposes
9 of subsection D of this section and this subsection, project payback
10 shall be determined as of the date of the completion of the well and
11 shall not include any expenses beyond the completion date of the
12 well, and subject to the approval of the Tax Commission.

13 2. Claims for refund for the production periods within the
14 fiscal years ending June 30, 2010, and June 30, 2011, shall be filed
15 and received by the Tax Commission no later than December 31, 2011.

16 3. For production commenced on or after July 1, 2011, and prior
17 to July 1, 2015, the tax levied pursuant to the provisions of this
18 section on the production of oil, gas or oil and gas from a
19 horizontally drilled well shall be reduced to a rate of one percent
20 (1%) for a period of forty-eight (48) months from the month of
21 initial production. The taxes collected from the production of oil
22 shall be apportioned pursuant to the provisions of paragraph 7 of
23 Section 1004 of this title. The taxes collected from the production
24

1 of gas shall be apportioned pursuant to the provisions of paragraph
2 4 of Section 1004 of this title.

3 4. The provisions of this paragraph shall only apply to wells
4 qualifying for the exemption provided under this subsection prior to
5 July 1, 2011. The production of oil, gas or oil and gas on or after
6 July 1, 2011, from these qualifying wells shall be taxed at a rate
7 of one percent (1%) until the expiration of forty-eight (48) months
8 commencing with the month of initial production.

9 5. As used in this subsection, "horizontally drilled well"
10 shall mean an oil, gas or oil and gas well drilled or recompleted in
11 a manner which encounters and subsequently produces from a
12 geological formation at an angle in excess of seventy (70) degrees
13 from vertical and which laterally penetrates a minimum of one
14 hundred fifty (150) feet into the pay zone of the formation.

15 F. 1. Except as otherwise provided by this section, the
16 severance or production of oil, gas or oil and gas from an inactive
17 well shall be exempt from the gross production tax levied pursuant
18 to subsection B of this section for a period of twenty-eight (28)
19 months from the date upon which production is reestablished. This
20 exemption shall take effect July 1, 1994, and shall apply to wells
21 for which work to reestablish or enhance production began on or
22 after July 1, 1994, and for which production is reestablished prior
23 to July 1, ~~2014~~ 2015. For all such production, a refund against
24

1 gross production taxes shall be issued as provided in subsection L
2 of this section.

3 2. As used in this subsection, for wells for which production
4 is reestablished prior to July 1, 1997, "inactive well" means any
5 well that has not produced oil, gas or oil and gas for a period of
6 not less than two (2) years as evidenced by the appropriate forms on
7 file with the Corporation Commission reflecting the well's status.
8 As used in this subsection, for wells for which production is
9 reestablished on or after July 1, 1997, and prior to July 1, ~~2014~~
10 2015, "inactive well" means any well that has not produced oil, gas
11 or oil and gas for a period of not less than one (1) year as
12 evidenced by the appropriate forms on file with the Corporation
13 Commission reflecting the well's status. Wells which experience
14 mechanical failure or loss of mechanical integrity, as defined by
15 the Corporation Commission, including but not limited to, casing
16 leaks, collapse of casing or loss of equipment in a wellbore, or any
17 similar event which causes cessation of production, shall also be
18 considered inactive wells.

19 G. 1. Except as otherwise provided by this section, any
20 incremental production which results from a production enhancement
21 project shall be exempt from the gross production tax levied
22 pursuant to subsection B of this section for a period of twenty-
23 eight (28) months from the date of first sale after project
24 completion of the production enhancement project. This exemption

1 shall take effect July 1, 1994, and shall apply to production
2 enhancement projects having a project beginning date on or after
3 July 1, 1994, and prior to July 1, ~~2014~~ 2015. For all such
4 production, a refund against gross production taxes shall be issued
5 as provided in subsection L of this section.

6 2. As used in this subsection:

7 a. (1) for production enhancement projects having a
8 project beginning date prior to July 1, 1997,
9 "production enhancement project" means any
10 workover as defined in this paragraph,
11 recompletion as defined in this paragraph, or
12 fracturing of a producing well, and

13 (2) for production enhancement projects having a
14 project beginning date on or after July 1, 1997,
15 and prior to July 1, ~~2014~~ 2015, "production
16 enhancement project" means any workover as
17 defined in this paragraph, recompletion as
18 defined in this paragraph, reentry of plugged and
19 abandoned wellbores, or addition of a well or
20 field compression,

21 b. "incremental production" means the amount of crude
22 oil, natural gas or other hydrocarbons which are
23 produced as a result of the production enhancement
24 project in excess of the base production,

1 c. "base production" means the average monthly amount of
2 production for the twelve-month period immediately
3 prior to the commencement of the project or the
4 average monthly amount of production for the twelve-
5 month period immediately prior to the commencement of
6 the project less the monthly rate of production
7 decline for the project for each month beginning one
8 hundred eighty (180) days prior to the commencement of
9 the project. The monthly rate of production decline
10 shall be equal to the average extrapolated monthly
11 decline rate for the twelve-month period immediately
12 prior to the commencement of the project based on the
13 production history of the well. If the well or wells
14 covered in the application had production for less
15 than the full twelve-month period prior to the filing
16 of the application for the production enhancement
17 project, the base production shall be the average
18 monthly production for the months during that period
19 that the well or wells produced,

20 d. (1) for production enhancement projects having a
21 project beginning date prior to July 1, 1997,
22 "recompletion" means any downhole operation in an
23 existing oil or gas well that is conducted to
24 establish production of oil or gas from any

1 geological interval not currently completed or
2 producing in such existing oil or gas well, and
3 (2) for production enhancement projects having a
4 project beginning date on or after July 1, 1997,
5 and prior to July 1, ~~2014~~ 2015, "recompletion"
6 means any downhole operation in an existing oil
7 or gas well that is conducted to establish
8 production of oil or gas from any geologic
9 interval not currently completed or producing in
10 such existing oil or gas well within the same or
11 a different geologic formation, and

12 e. "workover" means any downhole operation in an existing
13 oil or gas well that is designed to sustain, restore
14 or increase the production rate or ultimate recovery
15 in a geologic interval currently completed or
16 producing in the existing oil or gas well. For
17 production enhancement projects having a project
18 beginning date prior to July 1, 1997, "workover"
19 includes, but is not limited to, acidizing,
20 reperforating, fracture treating, sand/paraffin
21 removal, casing repair, squeeze cementing, or setting
22 bridge plugs to isolate water productive zones from
23 oil or gas productive zones, or any combination
24 thereof. For production enhancement projects having a

1 project beginning date on or after July 1, 1997, and
2 prior to July 1, ~~2014~~ 2015, "workover" includes, but
3 is not limited to:

- 4 (1) acidizing,
 - 5 (2) reperforating,
 - 6 (3) fracture treating,
 - 7 (4) sand/paraffin/scale removal or other wellbore
8 cleanouts,
 - 9 (5) casing repair,
 - 10 (6) squeeze cementing,
 - 11 (7) installation of compression on a well or group of
12 wells or initial installation of artificial lifts
13 on gas wells, including plunger lifts, rod pumps,
14 submersible pumps and coiled tubing velocity
15 strings,
 - 16 (8) downsizing existing tubing to reduce well
17 loading,
 - 18 (9) downhole commingling,
 - 19 (10) bacteria treatments,
 - 20 (11) upgrading the size of pumping unit equipment,
 - 21 (12) setting bridge plugs to isolate water production
22 zones, or
 - 23 (13) any combination thereof.
- 24

1 "Workover" shall not mean the routine maintenance,
2 routine repair, or like for like replacement of
3 downhole equipment such as rods, pumps, tubing,
4 packers, or other mechanical devices.

5 H. 1. For purposes of this subsection, "depth" means the
6 length of the maximum continuous string of drill pipe utilized
7 between the drill bit face and the drilling rig's kelly bushing.

8 2. Except as otherwise provided in subsection K of this
9 section:

10 a. the production of oil, gas or oil and gas from wells
11 spudded between July 1, 1997, and July 1, 2005, and
12 drilled to a depth of twelve thousand five hundred
13 (12,500) feet or greater and wells spudded between
14 July 1, 2005, and July 1, ~~2014~~ 2015, and drilled to a
15 depth between twelve thousand five hundred (12,500)
16 feet and fourteen thousand nine hundred ninety-nine
17 (14,999) feet shall be exempt from the gross
18 production tax levied pursuant to subsection B of this
19 section from the date of first sales for a period of
20 twenty-eight (28) months;

21 b. the production of oil, gas or oil and gas from wells
22 spudded between July 1, 2002, and July 1, 2005, and
23 drilled to a depth of fifteen thousand (15,000) feet
24 or greater and wells spudded between July 1, 2005, and

1 July 1, 2011, and drilled to a depth between fifteen
2 thousand (15,000) feet and seventeen thousand four
3 hundred ninety-nine (17,499) feet shall be exempt from
4 the gross production tax levied pursuant to subsection
5 B of this section from the date of first sales for a
6 period of forty-eight (48) months;

7 c. the production of oil, gas or oil and gas from wells
8 spudded between July 1, 2002, and July 1, 2011, and
9 drilled to a depth of seventeen thousand five hundred
10 (17,500) feet or greater shall be exempt from the
11 gross production tax levied pursuant to subsection B
12 of this section from the date of first sales for a
13 period of sixty (60) months;

14 d. the tax levied pursuant to the provisions of this
15 section on the production of oil, gas or oil and gas
16 from wells spudded between July 1, 2011, and July 1,
17 2015, and drilled to a depth between fifteen thousand
18 (15,000) feet and seventeen thousand four hundred
19 ninety-nine (17,499) feet shall be reduced to a rate
20 of four percent (4%) for a period of forty-eight (48)
21 months from the date of first sales. The taxes
22 collected from the production of oil shall be
23 apportioned pursuant to the provisions of paragraph 6
24 of Section 1004 of this title. The taxes collected

1 from the production of gas shall be apportioned
2 pursuant to the provisions of paragraph 3 of Section
3 1004 of this title;

4 e. the tax levied pursuant to the provisions of this
5 section on the production of oil, gas or oil and gas
6 from wells spudded between July 1, 2011, and July 1,
7 2015, and drilled to a depth of seventeen thousand
8 five hundred (17,500) feet or greater shall be reduced
9 to a rate of four percent (4%) for a period of sixty
10 (60) months from the date of first sales. The taxes
11 collected from the production of oil shall be
12 apportioned pursuant to the provisions of paragraph 6
13 of Section 1004 of this title. The taxes collected
14 from the production of gas shall be apportioned
15 pursuant to the provisions of paragraph 3 of Section
16 1004 of this title; and

17 f. the provisions of subparagraphs b and c of this
18 paragraph shall only apply to the production of wells
19 qualifying for the exemption provided under these
20 subparagraphs prior to July 1, 2011. The production
21 of oil, gas or oil and gas on or after July 1, 2011,
22 from wells qualifying under subparagraph b of this
23 paragraph shall be taxed at a rate of four percent
24 (4%) until the expiration of forty-eight (48) months

1 from the date of first sales and the production of
2 oil, gas or oil and gas on or after July 1, 2011, from
3 wells qualifying under subparagraph c of this
4 paragraph shall be taxed at a rate of four percent
5 (4%) until the expiration of sixty (60) months from
6 the date of first sales.

7 3. Except as otherwise provided for in this subsection, for all
8 such wells spudded, a refund against gross production taxes shall be
9 issued as provided in subsection L of this section.

10 4. For all wells spudded after July 1, 2005, and which are
11 exempt from gross production tax pursuant to subparagraphs b and c
12 of paragraph 2 of this subsection, the amount of refunds paid by the
13 Tax Commission shall be limited as follows:

14 a. for the fiscal year ending June 30, 2006, no claims
15 for refunds shall be paid,

16 b. for the fiscal year ending June 30, 2007, the total
17 amount of refunds paid shall be equal to or less than
18 Seventeen Million Dollars (\$17,000,000.00),

19 c. for the fiscal year ending June 30, 2008, the total
20 amount of refunds paid shall be equal to or less than
21 Twenty Million Dollars (\$20,000,000.00), and

22 d. for the fiscal years ending June 30, 2009, through
23 June 30, 2011, the total amount of refunds paid each
24

1 fiscal year shall be equal to or less than Twenty-five
2 Million Dollars (\$25,000,000.00).

3 5. Except as otherwise provided for in paragraph 7 of this
4 subsection and paragraph 2 of subsection L of this section, for the
5 fiscal years ending on or before June 30, 2011, in order to qualify
6 for a refund of gross production tax on wells which are exempt
7 pursuant to subparagraphs b and c of paragraph 2 of this subsection,
8 claims for refunds shall be filed within six (6) months after the
9 first day of the fiscal year in which the refund is first available
10 pursuant to subsection L of this section. When processing
11 applications for qualification for an exemption as provided for in
12 paragraph 2 of subsection M of this section, the Corporation
13 Commission shall give priority to those applications filed for an
14 exemption pursuant to subparagraphs b and c of paragraph 2 of this
15 subsection in order for applicants to comply with the six-month
16 filing period as provided for in this paragraph.

17 6. If the total amount of claims for refunds made during any
18 fiscal year are greater than the total amount of refunds allowed for
19 that fiscal year as provided for in paragraph 4 of this subsection,
20 the Tax Commission shall proportionately reduce the amount of each
21 claim so that the total amount of claims equal the total amount
22 allowed for refunds.

23 7. If the total amount of claims for a refund filed within the
24 six-month filing period for a fiscal year is less than the total

1 amount of refunds allowed for that fiscal year as provided for in
2 paragraph 4 of this subsection, the Tax Commission shall pay the
3 claims that have been filed. Then for any remaining funds, the Tax
4 Commission shall extend the claims-filing period for three (3)
5 months and shall pay any claims filed during the extended filing
6 period up to the total amount of remaining funds. If the amount of
7 claims for refunds filed during the extended filing period is
8 greater than the total amount of remaining funds, the Tax Commission
9 shall proportionately reduce the amount of each claim as provided
10 for in paragraph 6 of this subsection.

11 I. 1. Except as otherwise provided by this section, the
12 production of oil, gas or oil and gas from wells spudded or
13 reentered between July 1, 1995, and July 1, ~~2014~~ 2015, which qualify
14 as a new discovery pursuant to this subsection shall be exempt from
15 the gross production tax levied pursuant to subsection B of this
16 section from the date of first sales for a period of twenty-eight
17 (28) months. For all such wells spudded or reentered, a refund
18 against gross production taxes shall be issued as provided in
19 subsection L of this section. As used in this subsection, "new
20 discovery" means production of oil, gas or oil and gas from:

21 a. (1) for wells spudded or reentered on or after July
22 1, 1997, a well that discovers crude oil in
23 paying quantities that is more than one (1) mile
24

1 from the nearest oil well producing from the same
2 producing formation, and

3 (2) for wells spudded or reentered on or after July
4 1, 1997, and prior to July 1, ~~2014~~ 2015, a well
5 that discovers crude oil in paying quantities
6 that is more than one (1) mile from the nearest
7 oil well producing from the same producing
8 interval of the same formation,

9 b. (1) for wells spudded or reentered prior to July 1,
10 1997, a well that discovers crude oil in paying
11 quantities beneath current production in a deeper
12 producing formation that is more than one (1)
13 mile from the nearest oil well producing from the
14 same deeper producing formation, and

15 (2) for wells spudded or reentered on or after July
16 1, 1997, and prior to July 1, ~~2014~~ 2015, a well
17 that discovers crude oil in paying quantities
18 beneath current production in a deeper producing
19 interval that is more than one (1) mile from the
20 nearest oil well producing from the same deeper
21 producing interval,

22 c. (1) for wells spudded or reentered prior to July 1,
23 1997, a well that discovers natural gas in paying
24 quantities that is more than two (2) miles from

1 the nearest gas well producing from the same
2 producing formation, and

3 (2) for wells spudded or reentered on or after July
4 1, 1997, and prior to July 1, ~~2014~~ 2015, a well
5 that discovers natural gas in paying quantities
6 that is more than two (2) miles from the nearest
7 gas well producing from the same producing
8 interval, or

9 d. (1) for wells spudded or reentered prior to July 1,
10 1997, a well that discovers natural gas in paying
11 quantities beneath current production in a deeper
12 producing formation that is more than two (2)
13 miles from the nearest gas well producing from
14 the same deeper producing formation, and

15 (2) for wells spudded or reentered on and after July
16 1, 1997, and prior to July 1, ~~2014~~ 2015, a well
17 that discovers natural gas in paying quantities
18 beneath current production in a deeper producing
19 interval that is more than two (2) miles from the
20 nearest gas well producing from the same deeper
21 producing interval.

22 2. The Corporation Commission shall deliver to the Legislature
23 a report on the number of wells as defined by paragraph 1 of this
24 subsection that are drilled and the amount of production from those

1 wells. The first such report shall be delivered to the Legislature
2 no later than February 1, 1997, and each February 1, thereafter,
3 until the conclusion of the program.

4 J. Except as otherwise provided by this section, the production
5 of oil, gas or oil and gas from any well, drilling of which is
6 commenced after July 1, 2000, and prior to July 1, ~~2014~~ 2015,
7 located within the boundaries of a three-dimensional seismic shoot
8 and drilled based on three-dimensional seismic technology, shall be
9 exempt from the gross production tax levied pursuant to subsection B
10 of this section from the date of first sales as follows:

11 1. If the three-dimensional seismic shoot is shot prior to July
12 1, 2000, for a period of eighteen (18) months; and

13 2. If the three-dimensional seismic shoot is shot on or after
14 July 1, 2000, for a period of twenty-eight (28) months.

15 For all such production, a refund against gross production taxes
16 shall be issued as provided in subsection L of this section.

17 K. 1. The exemptions provided for in subsections F, G, I and J
18 of this section, the exemption provided for in subparagraph a of
19 paragraph 2 of subsection H of this section, and the exemptions
20 provided for in subparagraphs b and c of paragraph 2 of subsection H
21 of this section for production from wells spudded before July 1,
22 2005, shall not apply:

23 a. to the severance or production of oil, upon
24 determination by the Tax Commission that the average

1 annual index price of Oklahoma oil exceeds Thirty
2 Dollars (\$30.00) per barrel calculated on an annual
3 calendar year basis, as adjusted for inflation using
4 the Consumer Price Index-All Urban Consumers (CPI-U)
5 as published by the Bureau of Labor Statistics of the
6 U.S. Department of Labor or its successor agency.

7 Such adjustment shall be based on the most current
8 data available for the preceding twelve-month period
9 and shall be applied for the fiscal year which begins
10 on the July 1 date immediately following the release
11 of the CPI-U data by the Bureau of Statistics.

12 (1) The "average annual index price" will be
13 calculated by multiplying the West Texas
14 Intermediate closing price by the "index price
15 ratio". The index price ratio is defined as the
16 immediate preceding three-year historical average
17 ratio of the actual weighted average wellhead
18 price to the West Texas Intermediate close price
19 published on the last business day of each month.

20 (2) The average annual index price will be updated
21 annually by the Oklahoma Tax Commission no later
22 than March 31 of each year.

23 (3) If the West Texas Intermediate Crude price is
24 unavailable for any reason, an industry benchmark

price may be substituted and used for the calculation of the index price as determined by the Tax Commission,

b. to the severance or production of oil or gas upon which gross production taxes are paid at a rate of one percent (1%) pursuant to the provisions of subsection B of this section, and

c. to the severance or production of gas, upon determination by the Tax Commission that the average annual index price of Oklahoma gas exceeds Five Dollars (\$5.00) per thousand cubic feet (mcf) calculated on an annual calendar year basis as adjusted for inflation using the Consumer Price Index-All Urban Consumers (CPI-U) as published by the Bureau of Labor Statistics of the U.S. Department of Labor or its successor agency. Such adjustment shall be based on the most current data available for the preceding twelve-month period and shall be applied for the fiscal year which begins on the July 1 date immediately following the release of the CPI-U data by the Bureau of Statistics.

(1) The "average annual index price" will be calculated by multiplying the Henry Hub 3-Day Average Close price by the "index price ratio".

1 The index price ratio is defined as the immediate
2 preceding three-year historical average ratio of
3 the actual weighted average wellhead price to the
4 Henry Hub 3-Day Average Close price published on
5 the last business day of each month.

6 (2) The average annual index price will be updated
7 annually by the Oklahoma Tax Commission no later
8 than March 31 of each year.

9 (3) If the Henry Hub 3-Day Average Close price is
10 unavailable for any reason, an industry benchmark
11 price may be substituted and used for the
12 calculation of the index price as determined by
13 the Tax Commission.

14 2. Notwithstanding the exemptions granted pursuant to
15 subsections F, G, I, J, paragraph 1 of subsection E, and
16 subparagraph a of paragraph 2 of subsection H of this section, there
17 shall continue to be levied upon the production of petroleum or
18 other crude or mineral oil or natural gas or casinghead gas, as
19 provided in subsection B of this section, from any wells provided
20 for in subsections F, G, I, J, paragraph 1 of subsection E, and
21 subparagraph a of paragraph 2 of subsection H of this section, a tax
22 equal to one percent (1%) of the gross value of the production of
23 petroleum or other crude or mineral oil or natural gas or casinghead
24 gas. The tax hereby levied shall be apportioned as follows:

1 a. fifty percent (50%) of the sum collected shall be
2 apportioned to the County Highway Fund as provided in
3 subparagraph b of paragraph 1 of Section 1004 of this
4 title, and

5 b. fifty percent (50%) of the sum collected shall be
6 apportioned to the appropriate school district as
7 provided in subparagraph c of paragraph 1 of Section
8 1004 of this title.

9 Upon the expiration of the exemption granted pursuant to
10 subsection E, F, G, H, I or J of this section, the provisions of
11 this paragraph shall have no force or effect.

12 L. Except as provided in subsection M of this section, for all
13 oil and gas production exempt from gross production taxes pursuant
14 to subsections E, F, G, H, I and J of this section during a given
15 fiscal year, a refund of gross production taxes shall be issued to
16 the well operator or a designee in the amount of such gross
17 production taxes paid during such period, subject to the following
18 provisions:

19 1. A refund shall not be claimed until after the end of such
20 fiscal year. As used in this subsection, a fiscal year shall be
21 deemed to begin on July 1 of one calendar year and shall end on June
22 30 of the subsequent calendar year;

23 2. Unless otherwise specified, no claims for refunds pursuant
24 to the provisions of this subsection shall be filed more than

1 | eighteen (18) months after the first day of the fiscal year in which
2 | the refund is first available;

3 | 3. No claims for refunds pursuant to the provisions of this
4 | subsection shall be filed by or on behalf of persons other than the
5 | operator or a working interest owner of record at the time of
6 | production;

7 | 4. No refunds shall be claimed or paid pursuant to the
8 | provisions of this subsection for oil or gas production upon which a
9 | tax is paid at a rate of one percent (1%) as specified in subsection
10 | B of this section; and

11 | 5. No refund shall be paid unless the person making the claim
12 | for refund demonstrates by affidavit or other means prescribed by
13 | the Tax Commission that an amount equal to or greater than the
14 | amount of the refund has been invested in the exploration for or
15 | production of crude oil or natural gas in this state by such person
16 | not more than three (3) years prior to the date of the claim. No
17 | amount of investment used to qualify for a refund pursuant to the
18 | provisions of this paragraph may be used to qualify for another
19 | refund pursuant to the provisions of this paragraph.

20 | If there are insufficient funds collected from the production of
21 | oil to satisfy the refunds claimed for oil production pursuant to
22 | subsection E, F, G, H, I or J of this section, the Tax Commission
23 | shall pay the balance of the refund claims out of the gross
24 | production taxes collected from the production of gas.

1 M. Claims for refunds filed for the exemptions provided in
2 paragraph 1 of subsection E, and subparagraphs b and c of paragraph
3 2 of subsection H of this section for the production periods
4 beginning on or after July 1, 2009, and ending on or before June 30,
5 2011, shall be paid pursuant to the provisions of this subsection.
6 The claims for refunds referenced herein shall be paid in equal
7 payments of a period of thirty-six (36) months. The first payment
8 shall be made after July 1, 2012, but prior to August 1, 2012. The
9 Tax Commission shall provide, not later than June 30, 2012, to the
10 operator or designated interest owner, a schedule of rebates to be
11 paid out over the thirty-six-month period. The payments required to
12 be made pursuant to the provisions of this subsection shall be
13 subject to a penalty rate of interest equal to nine percent (9%) per
14 annum. The penalty rate of interest shall accrue for each day that
15 a required payment is not made by the end of the month for which the
16 payment is required to be made by the Tax Commission. For purposes
17 of computing the per diem rate of interest pursuant to this
18 subsection, a calendar year shall be deemed to consist of three
19 hundred sixty (360) days.

20 N. 1. The Corporation Commission and the Tax Commission shall
21 promulgate joint rules for the qualification for the exemptions
22 provided for in subsections E, F, G, H, I and J of this section and
23 the rules shall contain provisions for verification of any wells
24 from which production may be qualified for the exemptions. The Tax

1 Commission shall adopt rules and regulations which establish
2 guidelines for production of oil or gas after July 1, 2011, which is
3 exempt from tax pursuant to the provisions of paragraph 1 of
4 subsection E and subparagraphs b and c of paragraph 2 of subsection
5 H of this section to remit tax at the reduced rate provided in
6 paragraph 2 of subsection E and subparagraphs d and e of paragraph 2
7 of subsection H of this section until the end of the qualifying
8 exemption period.

9 2. Any person requesting any exemption shall file an
10 application for qualification for the exemption with the Corporation
11 Commission which, upon finding that the well meets the requirements
12 of subsection E, F, G, H, I or J of this section, shall approve the
13 application for qualification.

14 3. Any person seeking an exemption shall:

15 a. file an application for the exemption with the Tax
16 Commission which, upon determination of qualification
17 by the Corporation Commission, shall approve the
18 application for an exemption, and

19 b. provide a copy of the approved application to the
20 remitter of the gross production tax.

21 4. The Tax Commission may require any person requesting an
22 exemption to furnish necessary financial and other information or
23 records in order to determine and justify the refund.

24

1 5. Upon the expiration of the exemption granted pursuant to
2 subsection E, F, G, H, I or J of this section, the Tax Commission
3 shall collect the gross production tax levied pursuant to this
4 section. If a person who qualifies for the exemption elects to
5 remit his or her own gross production tax during the exemption
6 period, the first purchaser shall not be liable to withhold or remit
7 the tax until the first day of the month following the receipt of
8 written notification from the person who is qualified for such
9 exemption stating that such exemption has expired and directing the
10 first purchaser to resume tax remittance on his or her behalf.

11 O. All persons shall only be entitled to either the exemption
12 granted pursuant to subsection D of this section or the exemption
13 granted pursuant to subsection E, F, G, H, I or J of this section
14 for each oil, gas or oil and gas well drilled or recompleted in this
15 state. However, any person who qualifies for the exemption granted
16 pursuant to subsection E, F, G, H, I or J of this section shall not
17 be prohibited from qualification for the exemption granted pursuant
18 to subsection D of this section, if the exemption granted pursuant
19 to subsection E, F, G, H, I or J of this section has expired.

20 P. The Tax Commission shall have the power to require any such
21 person engaged in mining or the production or the purchase of such
22 asphalt, mineral ores aforesaid, oil, or gas, or the owner of any
23 royalty interest therein to furnish any additional information by it
24 deemed to be necessary for the purpose of correctly computing the

1 amount of the tax; and to examine the books, records and files of
2 such person; and shall have power to conduct hearings and compel the
3 attendance of witnesses, and the production of books, records and
4 papers of any person.

5 Q. Any person or any member of any firm or association, or any
6 officer, official, agent or employee of any corporation who shall
7 fail or refuse to testify; or who shall fail or refuse to produce
8 any books, records or papers which the Tax Commission shall require;
9 or who shall fail or refuse to furnish any other evidence or
10 information which the Tax Commission may require; or who shall fail
11 or refuse to answer any competent questions which may be put to him
12 or her by the Tax Commission, touching the business, property,
13 assets or effects of any such person relating to the gross
14 production tax imposed by this article or exemption authorized
15 pursuant to this section or other laws, shall be guilty of a
16 misdemeanor, and, upon conviction thereof, shall be punished by a
17 fine of not more than Five Hundred Dollars (\$500.00), or
18 imprisonment in the jail of the county where such offense shall have
19 been committed, for not more than one (1) year, or by both such fine
20 and imprisonment; and each day of such refusal on the part of such
21 person shall constitute a separate and distinct offense.

22 R. The Tax Commission shall have the power and authority to
23 ascertain and determine whether or not any report herein required to
24 be filed with it is a true and correct report of the gross products,

1 and of the value thereof, of such person engaged in the mining or
2 production or purchase of asphalt and ores bearing minerals
3 aforesaid and of oil and gas. If any person has made an untrue or
4 incorrect report of the gross production or value or volume thereof,
5 or shall have failed or refused to make such report, the Tax
6 Commission shall, under the rules prescribed by it, ascertain the
7 correct amount of either, and compute the tax.

8 S. The payment of the taxes herein levied shall be in full, and
9 in lieu of all taxes by the state, counties, cities, towns, school
10 districts and other municipalities upon any property rights attached
11 to or inherent in the right to the minerals, upon producing leases
12 for the mining of asphalt and ores bearing lead, zinc, jack or
13 copper, or for oil, or for gas, upon the mineral rights and
14 privileges for the minerals aforesaid belonging or appertaining to
15 land, upon the machinery, appliances and equipment used in and
16 around any well producing oil, or gas, or any mine producing asphalt
17 or any of the mineral ores aforesaid and actually used in the
18 operation of such well or mine. The payment of gross production tax
19 shall also be in lieu of all taxes upon the oil, gas, asphalt or
20 ores bearing minerals hereinbefore mentioned during the tax year in
21 which the same is produced, and upon any investment in any of the
22 leases, rights, privileges, minerals or other property described
23 herein. Any interest in the land, other than that herein
24 enumerated, and oil in storage, asphalt and ores bearing minerals

1 hereinbefore named, mined, produced and on hand at the date as of
2 which property is assessed for general and ad valorem taxation for
3 any subsequent tax year, shall be assessed and taxed as other
4 property within the taxing district in which such property is
5 situated at the time.

6 T. No equipment, material or property shall be exempt from the
7 payment of ad valorem tax by reason of the payment of the gross
8 production tax except such equipment, machinery, tools, material or
9 property as is actually necessary and being used and in use in the
10 production of asphalt or of ores bearing lead, zinc, jack or copper
11 or of oil or gas. Provided, the exemption shall include the
12 wellbore and non-recoverable down-hole material, including casing,
13 actually used in the disposal of waste materials produced with such
14 oil or gas. It is expressly declared that no ice plants, hospitals,
15 office buildings, garages, residences, gasoline extraction or
16 absorption plants, water systems, fuel systems, rooming houses and
17 other buildings, nor any equipment or material used in connection
18 therewith, shall be exempt from ad valorem tax.

19 U. The exemption from ad valorem tax set forth in subsections S
20 and T of this section shall continue to apply to all property from
21 which production of oil, gas or oil and gas is exempt from gross
22 production tax pursuant to subsection D, E, F, G, H, I or J of this
23 section.

24

1 SECTION 2. It being immediately necessary for the preservation
2 of the public peace, health and safety, an emergency is hereby
3 declared to exist, by reason whereof this act shall take effect and
4 be in full force from and after its passage and approval.

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