

STATE OF OKLAHOMA

1st Extraordinary Session of the 56th Legislature (2017)

COMMITTEE SUBSTITUTE
FOR

HOUSE BILL NO. 1085

By: Wallace and Casey of the
House

and

David and Fields of the
Senate

COMMITTEE SUBSTITUTE

An Act relating to revenue and taxation; amending 68 O.S. 2011, Section 1001, as last amended by Section 1, Chapter 355, O.S.L. 2017 (68 O.S. Supp. 2017, Section 1001), which relates to gross production taxes; clarifying reference; limiting period where certain reduced rates apply; and declaring an emergency.

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

SECTION 1. AMENDATORY 68 O.S. 2011, Section 1001, as last amended by Section 1, Chapter 355, O.S.L. 2017 (68 O.S. Supp. 2017, Section 1001), is amended to read as follows:

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

1 B. 1. Effective July 1, 2013, through June 30, 2015, except as
2 otherwise exempted pursuant to subsections D, E, F, G, H, I and J of
3 this section, there shall be levied upon the production of oil a tax
4 equal to seven percent (7%) of the gross value of the production of
5 oil based on a per barrel measurement of forty-two (42) U.S. gallons
6 of two hundred thirty-one (231) cubic inches per gallon, computed at
7 a temperature of sixty (60) degrees Fahrenheit.

8 2. Effective July 1, 2013, through June 30, 2015, except as
9 otherwise exempted pursuant to subsections D, E, F, G, H, I and J of
10 this section, there shall be levied a tax equal to seven percent
11 (7%) of the gross value of the production of gas.

12 3. Effective July 1, 2015, except as otherwise provided in this
13 section, there shall be levied a tax on the gross value of the
14 production of oil and gas as follows:

15 a. upon the production of oil a tax equal to seven
16 percent (7%) of the gross value of the production of
17 oil based on a per barrel measurement of forty-two
18 (42) U.S. gallons of two hundred thirty-one (231)
19 cubic inches per gallon, computed at a temperature of
20 sixty (60) degrees Fahrenheit,

21 b. upon the production of gas a tax equal to seven
22 percent (7%) of the gross value of the production of
23 gas, and
24

1 c. notwithstanding the levies in subparagraphs a and b of
2 this paragraph, the production of oil, gas, or oil and
3 gas from wells spudded on or after July 1, 2015, shall
4 be taxed at a rate of two percent (2%) commencing with
5 the month of first production for a period of thirty-
6 six (36) months. Thereafter, the production shall be
7 taxed as provided in subparagraphs a and b of this
8 paragraph.

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

12 D. 1. Except as otherwise provided in this section, for
13 secondary recovery projects approved or having an initial project
14 beginning date on or after July 1, 2000, and before July 1, 2017,
15 any incremental production attributable to the working interest
16 owners which results from such secondary recovery projects shall be
17 exempt from the gross production tax levied pursuant to this section
18 for a period not to exceed five (5) years from the initial project
19 beginning date or for a period ending upon the termination of the
20 secondary recovery process, whichever occurs first; provided
21 however, that the exemption provided by this paragraph shall not
22 apply to production occurring on or after July 1, 2017.

23 2. Except as otherwise provided in this section, for tertiary
24 recovery projects approved and having a project beginning date on or

1 after July 1, 1993, and before July 1, 2017, any incremental
2 production attributable to the working interest owners which results
3 from such tertiary recovery projects shall be exempt from the gross
4 production tax levied pursuant to this section from the project
5 beginning date until project payback is achieved, but not to exceed
6 a period of ten (10) years; provided however, that the exemption
7 provided by this paragraph shall not apply to production occurring
8 on or after July 1, 2017. Project payback pursuant to this
9 paragraph shall be determined by appropriate payback indicators
10 which will provide for the recovery of capital expenses and
11 operating expenses, excluding administrative expenses, in
12 determining project payback. The capital expenses of pipelines
13 constructed to transport carbon dioxide to a tertiary recovery
14 project shall not be included in determining project payback
15 pursuant to this paragraph.

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

19 4. For purposes of this subsection:

20 a. "incremental production" means the amount of crude oil
21 or other liquid hydrocarbons which is produced during
22 an enhanced recovery project and which is in excess of
23 the base production amount of crude oil or other
24 liquid hydrocarbons. The base production amount shall

1 be the average monthly amount of production for the
2 twelve-month period immediately prior to the project
3 beginning date minus the monthly rate of production
4 decline for the project for each month beginning one
5 hundred eighty (180) days prior to the project
6 beginning date. The monthly rate of production
7 decline shall be equal to the average extrapolated
8 monthly decline rate for the twelve-month period
9 immediately prior to the project beginning date as
10 determined by the Corporation Commission based on the
11 production history of the field, its current status,
12 and sound reservoir engineering principles, and

13 b. "project beginning date" means the date on which the
14 injection of liquids, gases, or other matter begins on
15 an enhanced recovery project.

16 5. The Corporation Commission shall promulgate rules for the
17 qualification for this exemption which shall include, but not be
18 limited to, procedures for determining incremental production as
19 defined in subparagraph a of paragraph 4 of this subsection, and the
20 establishment of appropriate payback indicators as approved by the
21 Tax Commission for the determination of project payback for each of
22 the exemptions authorized by this subsection.

23 6. For new secondary recovery projects and tertiary recovery
24 projects approved by the Corporation Commission on or after July 1,

1 1993, and before July 1, 2017, such approval shall constitute
2 qualification for an exemption.

3 7. Any person seeking an exemption shall file an application
4 for such exemption with the Tax Commission which, upon determination
5 of qualification by the Corporation Commission, shall approve the
6 application for such exemption.

7 8. The Tax Commission may require any person requesting such
8 exemption to furnish information or records concerning the exemption
9 as is deemed necessary by the Tax Commission.

10 9. Upon the expiration of the exemption granted pursuant to
11 this subsection, the Tax Commission shall collect the gross
12 production tax levied pursuant to this section.

13 E. 1. Except as otherwise provided in this section, the
14 production of oil, gas or oil and gas from a horizontally drilled
15 well producing prior to July 1, 2011, which production commenced
16 after July 1, 2002, shall be exempt from the gross production tax
17 levied pursuant to subsection B of this section from the project
18 beginning date until project payback is achieved but not to exceed a
19 period of forty-eight (48) months commencing with the month of
20 initial production from the horizontally drilled well. For purposes
21 of subsection D of this section and this subsection, project payback
22 shall be determined as of the date of the completion of the well and
23 shall not include any expenses beyond the completion date of the
24 well, and subject to the approval of the Tax Commission.

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

4 3. For production commenced on or after July 1, 2011, and prior
5 to July 1, 2015, the tax levied pursuant to the provisions of this
6 section on the production of oil, gas or oil and gas from a
7 horizontally drilled well shall be reduced to a rate of one percent
8 (1%) for a period of forty-eight (48) months from the month of
9 initial production; provided however, such production occurring on
10 or after ~~the effective date of this act~~ July 1, 2017, for the
11 remainder of such forty-eight-month period shall be subject to a
12 reduced rate of four percent (4%); further provided, any reduced
13 rate provided by this paragraph shall not apply to production
14 occurring during or after the first full month following the
15 effective date of this act. The taxes collected from the production
16 of oil shall be apportioned pursuant to the provisions of paragraph
17 7 of subsection B of Section 1004 of this title. The taxes
18 collected from the production of gas shall be apportioned pursuant
19 to the provisions of paragraph 3 of subsection B of Section 1004 of
20 this title.

21 4. The production of oil, gas or oil and gas on or after July
22 1, 2011, and prior to July 1, 2015, from these qualifying wells
23 shall be taxed at a rate of one percent (1%) until the expiration of
24

1 forty-eight (48) months commencing with the month of initial
2 production.

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

9 F. 1. Except as otherwise provided by this section, the
10 severance or production of oil, gas or oil and gas from an inactive
11 well shall be exempt from the gross production tax levied pursuant
12 to subsection B of this section for a period of twenty-eight (28)
13 months from the date upon which production is reestablished;
14 provided however, that the exemption provided by this paragraph
15 shall not apply to production occurring on or after July 1, 2017.
16 This exemption shall take effect July 1, 1994, and shall apply to
17 wells for which work to reestablish or enhance production began on
18 or after July 1, 1994, and for which production is reestablished
19 prior to July 1, 2017. For all such production, a refund against
20 gross production taxes shall be issued as provided in subsection L
21 of this section.

22 2. As used in this subsection, for wells for which production
23 is reestablished prior to July 1, 1997, "inactive well" means any
24 well that has not produced oil, gas or oil and gas for a period of

1 not less than two (2) years as evidenced by the appropriate forms on
2 file with the Corporation Commission reflecting the well's status.
3 As used in this subsection, for wells for which production is
4 reestablished on or after July 1, 1997, and prior to July 1, 2017,
5 "inactive well" means any well that has not produced oil, gas or oil
6 and gas for a period of not less than one (1) year as evidenced by
7 the appropriate forms on file with the Corporation Commission
8 reflecting the well's status. Wells which experience mechanical
9 failure or loss of mechanical integrity, as defined by the
10 Corporation Commission, including but not limited to, casing leaks,
11 collapse of casing or loss of equipment in a wellbore, or any
12 similar event which causes cessation of production, shall also be
13 considered inactive wells.

14 G. 1. Except as otherwise provided by this section, any
15 incremental production which results from a production enhancement
16 project shall be exempt from the gross production tax levied
17 pursuant to subsection B of this section for a period of twenty-
18 eight (28) months from the date of first sale after project
19 completion of the production enhancement project; provided however,
20 that the exemption provided by this paragraph shall not apply to
21 production occurring on or after July 1, 2017. This exemption shall
22 take effect July 1, 1994, and shall apply to production enhancement
23 projects having a project beginning date on or after July 1, 1994,
24 and prior to July 1, 2017. For all such production, a refund

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

3 2. As used in this subsection:

- 4 a. for production enhancement projects having a project
5 beginning date on or after July 1, 1997, and prior to
6 July 1, 2017, "production enhancement project" means
7 any workover as defined in this paragraph,
8 recompletion as defined in this paragraph, reentry of
9 plugged and abandoned wellbores, or addition of a well
10 or field compression,
- 11 b. "incremental production" means the amount of crude
12 oil, natural gas or other hydrocarbons which are
13 produced as a result of the production enhancement
14 project in excess of the base production,
- 15 c. "base production" means the average monthly amount of
16 production for the twelve-month period immediately
17 prior to the commencement of the project or the
18 average monthly amount of production for the twelve-
19 month period immediately prior to the commencement of
20 the project less the monthly rate of production
21 decline for the project for each month beginning one
22 hundred eighty (180) days prior to the commencement of
23 the project. The monthly rate of production decline
24 shall be equal to the average extrapolated monthly

1 decline rate for the twelve-month period immediately
2 prior to the commencement of the project based on the
3 production history of the well. If the well or wells
4 covered in the application had production for less
5 than the full twelve-month period prior to the filing
6 of the application for the production enhancement
7 project, the base production shall be the average
8 monthly production for the months during that period
9 that the well or wells produced,

10 d. for production enhancement projects having a project
11 beginning date on or after July 1, 1997, and prior to
12 July 1, 2017, "recompletion" means any downhole
13 operation in an existing oil or gas well that is
14 conducted to establish production of oil or gas from
15 any geologic interval not currently completed or
16 producing in such existing oil or gas well within the
17 same or a different geologic formation, and

18 e. "workover" means any downhole operation in an existing
19 oil or gas well that is designed to sustain, restore
20 or increase the production rate or ultimate recovery
21 in a geologic interval currently completed or
22 producing in the existing oil or gas well. For
23 production enhancement projects having a project
24 beginning date on or after July 1, 1997, and prior to

July 1, 2017, "workover" includes, but is not limited to:

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

"Workover" shall not mean the routine maintenance, routine repair, or like for like replacement of

1 downhole equipment such as rods, pumps, tubing,
2 packers, or other mechanical devices.

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

6 2. Except as otherwise provided in subsection K of this
7 section:

- 8 a. the production of oil, gas or oil and gas from wells
9 spudded between July 1, 1997, and July 1, 2005, and
10 drilled to a depth of twelve thousand five hundred
11 (12,500) feet or greater and wells spudded between
12 July 1, 2005, and July 1, 2015, and drilled to a depth
13 between twelve thousand five hundred (12,500) feet and
14 fourteen thousand nine hundred ninety-nine (14,999)
15 feet shall be exempt from the gross production tax
16 levied pursuant to subsection B of this section from
17 the date of first sales for a period of twenty-eight
18 (28) months; provided however, that the exemption
19 provided by this subparagraph shall not apply to
20 production occurring on or after July 1, 2017,
- 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; provided, the
22 reduced rate provided by this subparagraph shall not
23 apply to production occurring during or after the
24 first full month following the effective date of this

1 act. The taxes collected from the production of oil
2 shall be apportioned pursuant to the provisions of
3 paragraph 7 of subsection B of Section 1004 of this
4 title. The taxes collected from the production of gas
5 shall be apportioned pursuant to the provisions of
6 paragraph 3 of subsection B of Section 1004 of this
7 title,

8 e. the tax levied pursuant to the provisions of this
9 section on the production of oil, gas or oil and gas
10 from wells spudded between July 1, 2011, and July 1,
11 2015, and drilled to a depth of seventeen thousand
12 five hundred (17,500) feet or greater shall be reduced
13 to a rate of four percent (4%) for a period of sixty
14 (60) months from the date of first sales; provided
15 however, the reduced rate provided by this
16 subparagraph shall not apply to production occurring
17 during or after the first full month following the
18 effective date of this act. The taxes collected from
19 the production of oil shall be apportioned pursuant to
20 the provisions of paragraph 7 of subsection B of
21 Section 1004 of this title. The taxes collected from
22 the production of gas shall be apportioned pursuant to
23 the provisions of paragraph 3 of subsection B of
24 Section 1004 of this title, and

1 f. the provisions of subparagraphs b and c of this
2 paragraph shall only apply to the production of wells
3 qualifying for the exemption provided under these
4 subparagraphs prior to July 1, 2011. The production
5 of oil, gas or oil and gas on or after July 1, 2011,
6 and before July 1, 2015, from wells qualifying under
7 subparagraph b of this paragraph shall be taxed at a
8 rate of four percent (4%) until the expiration of
9 forty-eight (48) months from the date of first sales
10 and the production of oil, gas or oil and gas on or
11 after July 1, 2011, and before July 1, 2015, from
12 wells qualifying under subparagraph c of this
13 paragraph shall be taxed at a rate of four percent
14 (4%) until the expiration of sixty (60) months from
15 the date of first sales.

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

19 I. Except as otherwise provided by this section, the production
20 of oil, gas or oil and gas from wells spudded or reentered between
21 July 1, 1995, and July 1, 2015, which qualify as a new discovery
22 pursuant to this subsection shall be exempt from the gross
23 production tax levied pursuant to subsection B of this section from
24 the date of first sales for a period of twenty-eight (28) months;

1 provided however, that the exemption provided by this subsection
2 shall not apply to production occurring on or after July 1, 2017.

3 For all such wells spudded or reentered, a refund against gross
4 production taxes shall be issued as provided in subsection L of this
5 section. As used in this subsection, "new discovery" means
6 production of oil, gas or oil and gas from:

7 1. For wells spudded or reentered on or after July 1, 1997, and
8 prior to July 1, 2015, a well that discovers crude oil in paying
9 quantities that is more than one (1) mile from the nearest oil well
10 producing from the same producing interval of the same formation;

11 2. For wells spudded or reentered on or after July 1, 1997, and
12 prior to July 1, 2015, a well that discovers crude oil in paying
13 quantities beneath current production in a deeper producing interval
14 that is more than one (1) mile from the nearest oil well producing
15 from the same deeper producing interval;

16 3. For wells spudded or reentered on or after July 1, 1997, and
17 prior to July 1, 2015, a well that discovers natural gas in paying
18 quantities that is more than two (2) miles from the nearest gas well
19 producing from the same producing interval; or

20 4. For wells spudded or reentered on and after July 1, 1997,
21 and prior to July 1, 2015, a well that discovers natural gas in
22 paying quantities beneath current production in a deeper producing
23 interval that is more than two (2) miles from the nearest gas well
24 producing from the same deeper producing interval.

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

8 1. If the three-dimensional seismic shoot is shot prior to July
9 1, 2000, for a period of eighteen (18) months; and

10 2. If the three-dimensional seismic shoot is shot on or after
11 July 1, 2000, for a period of twenty-eight (28) months; provided
12 however, that the exemption provided by this subsection shall not
13 apply to production occurring on or after July 1, 2017. For all
14 such production, a refund against gross production taxes shall be
15 issued as provided in subsection L of this section.

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

22 a. to the severance or production of oil, upon
23 determination by the Tax Commission that the average
24 annual index price of Oklahoma oil exceeds Thirty

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

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

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

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

22 (3) If the West Texas Intermediate Crude price is
23 unavailable for any reason, an industry benchmark
24 price may be substituted and used for the

1 calculation of the index price as determined by
2 the Tax Commission,

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

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

21 (1) The "average annual index price" will be
22 calculated by multiplying the Henry Hub 3-Day
23 Average Close price by the "index price ratio".
24 The index price ratio is defined as the immediate

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

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

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

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

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 subsection B of
4 Section 1004 of this 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
8 subsection B of Section 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. 1. Prior to July 1, 2015, and except as provided in
13 subsection M of this section, for all oil and gas production exempt
14 from gross production taxes pursuant to subsections E, F, G, H, I
15 and J of this section during a given fiscal year, a refund of gross
16 production taxes shall be issued to the well operator or a designee
17 in the amount of such gross production taxes paid during such
18 period, subject to the following provisions:

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

- 1 b. unless otherwise specified, no claims for refunds
2 pursuant to the provisions of this subsection shall be
3 filed more than eighteen (18) months after the first
4 day of the fiscal year in which the refund is first
5 available,
- 6 c. no claims for refunds pursuant to the provisions of
7 this subsection shall be filed by or on behalf of
8 persons other than the operator or a working interest
9 owner of record at the time of production,
- 10 d. no refunds shall be claimed or paid pursuant to the
11 provisions of this subsection for oil or gas
12 production upon which a tax is paid at a rate of one
13 percent (1%) as specified in subsection B of this
14 section, and
- 15 e. no refund shall be paid unless the person making the
16 claim for refund demonstrates by affidavit or other
17 means prescribed by the Tax Commission that an amount
18 equal to or greater than the amount of the refund has
19 been invested in the exploration for or production of
20 crude oil or natural gas in this state by such person
21 not more than three (3) years prior to the date of the
22 claim. No amount of investment used to qualify for a
23 refund pursuant to the provisions of this subsection
24

1 may be used to qualify for another refund pursuant to
2 the provisions of this subsection.

3 If there are insufficient funds collected from the production of
4 oil to satisfy the refunds claimed for oil production pursuant to
5 subsection E, F, G, H, I or J of this section, the Tax Commission
6 shall pay the balance of the refund claims out of the gross
7 production taxes collected from the production of gas.

8 2. On or after July 1, 2015, for all oil and gas production
9 exempt from gross production taxes pursuant to subsections F and G
10 of this section during a given fiscal year, a refund of gross
11 production taxes shall be issued to the well operator or a designee
12 in the amount of such gross production taxes paid during such
13 period, subject to the following provisions:

14 a. a refund shall not be claimed until after the end of
15 such fiscal year. As used in this subsection, a
16 fiscal year shall be deemed to begin on July 1 of one
17 calendar year and shall end on June 30 of the
18 subsequent calendar year,

19 b. unless otherwise specified, no claims for refunds
20 pursuant to the provisions of this subsection shall be
21 filed more than eighteen (18) months after the first
22 day of the fiscal year in which the refund is first
23 available, or September 30, 2017, whichever is sooner,
24

- 1 c. no claims for refunds pursuant to the provisions of
2 this subsection shall be filed by or on behalf of
3 persons other than the operator or a working interest
4 owner of record at the time of production,
- 5 d. no refunds shall be claimed or paid pursuant to the
6 provisions of this subsection for oil or gas
7 production upon which a tax is paid at a rate of two
8 percent (2%), and
- 9 e. no refund shall be paid unless the person making the
10 claim for refund demonstrates by affidavit or other
11 means prescribed by the Tax Commission that an amount
12 equal to or greater than the amount of the refund has
13 been invested in the exploration for or production of
14 crude oil or natural gas in this state by such person
15 not more than three (3) years prior to the date of the
16 claim. No amount of investment used to qualify for a
17 refund pursuant to the provisions of this paragraph
18 may be used to qualify for another refund pursuant to
19 the provisions of this paragraph.

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

1 production taxes collected from either the production of oil or gas,
2 as necessary.

3 3. Notwithstanding any other provisions of law, after the
4 effective date of this act, no refund of gross production taxes
5 shall be claimed for oil and gas production exempt from gross
6 production taxes pursuant to subsections E, F, G, H, I and J of this
7 section for production occurring prior to July 1, 2003.

8 4. Notwithstanding any other provision of this section, no
9 claims for refunds pursuant to the provisions of subsections F, G, I
10 and J and subparagraph a of paragraph 2 of subsection H of this
11 section shall be filed or accepted on or after October 1, 2017.

12 M. Claims for refunds pursuant to the provisions of subsections
13 F, G, I and J and subparagraph a of paragraph 2 of subsection H of
14 this section for production periods ending on or before June 30,
15 2017, shall be paid pursuant to the provisions of this subsection.
16 The claims for refunds referenced herein shall be paid in equal
17 payments over a period of thirty-six (36) months. The first payment
18 shall be made after July 1, 2018, but prior to August 1, 2018. The
19 Tax Commission shall provide, not later than June 30, 2018, to the
20 operator or designated interest owner, a schedule of rebates to be
21 paid out over the thirty-six-month period.

22 N. 1. The Corporation Commission and the Tax Commission shall
23 promulgate joint rules for the qualification for the exemptions
24 provided for in this section and the rules shall contain provisions

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

10 2. Any person requesting any exemption shall file an
11 application for qualification for the exemption with the Corporation
12 Commission which, upon finding that the well meets the requirements
13 of this section, shall approve the 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.

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

11 O. 1. Prior to July 1, 2015, persons shall only be entitled to
12 either the exemption granted pursuant to subsection D of this
13 section or the exemption granted pursuant to subsection E, F, G, H,
14 I or J of this section for each oil, gas or oil and gas well drilled
15 or recompleted in this state. However, any person who qualifies for
16 the exemption granted pursuant to subsection E, F, G, H, I or J of
17 this section shall not be prohibited from qualification for the
18 exemption granted pursuant to subsection D of this section, if the
19 exemption granted pursuant to subsection E, F, G, H, I or J of this
20 section has expired.

21 2. On or after July 1, 2015, all persons shall only be entitled
22 to either the exemption granted pursuant to subsection D of this
23 section or the exemption granted pursuant to subsection F or G of
24 this section for each oil, gas, or oil and gas well drilled or

1 recompleted in this state. However, any person who qualifies for
2 the exemption granted pursuant to subsections F and G of this
3 section shall not be prohibited from qualification for the exemption
4 granted pursuant to subsection D of this section if the exemption
5 granted pursuant to subsection F or G of this section has expired.
6 Further, the exemption granted pursuant to subsection D of this
7 section shall not apply to any production upon which a tax is paid
8 at a rate of two percent (2%).

9 P. The Tax Commission shall have the power to require any such
10 person engaged in mining or the production or the purchase of such
11 asphalt, mineral ores aforesaid, oil, or gas, or the owner of any
12 royalty interest therein to furnish any additional information by it
13 deemed to be necessary for the purpose of correctly computing the
14 amount of the tax; and to examine the books, records and files of
15 such person; and shall have power to conduct hearings and compel the
16 attendance of witnesses, and the production of books, records and
17 papers of any person.

18 Q. Any person or any member of any firm or association, or any
19 officer, official, agent or employee of any corporation who shall
20 fail or refuse to testify; or who shall fail or refuse to produce
21 any books, records or papers which the Tax Commission shall require;
22 or who shall fail or refuse to furnish any other evidence or
23 information which the Tax Commission may require; or who shall fail
24 or refuse to answer any competent questions which may be put to him

1 or her by the Tax Commission, touching the business, property,
2 assets or effects of any such person relating to the gross
3 production tax imposed by this article or exemption authorized
4 pursuant to this section or other laws, shall be guilty of a
5 misdemeanor, and, upon conviction thereof, shall be punished by a
6 fine of not more than Five Hundred Dollars (\$500.00), or
7 imprisonment in the jail of the county where such offense shall have
8 been committed, for not more than one (1) year, or by both such fine
9 and imprisonment; and each day of such refusal on the part of such
10 person shall constitute a separate and distinct offense.

11 R. The Tax Commission shall have the power and authority to
12 ascertain and determine whether or not any report herein required to
13 be filed with it is a true and correct report of the gross products,
14 and of the value thereof, of such person engaged in the mining or
15 production or purchase of asphalt and ores bearing minerals
16 aforesaid and of oil and gas. If any person has made an untrue or
17 incorrect report of the gross production or value or volume thereof,
18 or shall have failed or refused to make such report, the Tax
19 Commission shall, under the rules prescribed by it, ascertain the
20 correct amount of either, and compute the tax.

21 S. The payment of the taxes herein levied shall be in full, and
22 in lieu of all taxes by the state, counties, cities, towns, school
23 districts and other municipalities upon any property rights attached
24 to or inherent in the right to the minerals, upon producing leases

1 for the mining of asphalt and ores bearing lead, zinc, jack or
2 copper, or for oil, or for gas, upon the mineral rights and
3 privileges for the minerals aforesaid belonging or appertaining to
4 land, upon the machinery, appliances and equipment used in and
5 around any well producing oil, or gas, or any mine producing asphalt
6 or any of the mineral ores aforesaid and actually used in the
7 operation of such well or mine. The payment of gross production tax
8 shall also be in lieu of all taxes upon the oil, gas, asphalt or
9 ores bearing minerals hereinbefore mentioned during the tax year in
10 which the same is produced, and upon any investment in any of the
11 leases, rights, privileges, minerals or other property described
12 herein. Any interest in the land, other than that herein
13 enumerated, and oil in storage, asphalt and ores bearing minerals
14 hereinbefore named, mined, produced and on hand at the date as of
15 which property is assessed for general and ad valorem taxation for
16 any subsequent tax year, shall be assessed and taxed as other
17 property within the taxing district in which such property is
18 situated at the time.

19 T. No equipment, material or property shall be exempt from the
20 payment of ad valorem tax by reason of the payment of the gross
21 production tax except such equipment, machinery, tools, material or
22 property as is actually necessary and being used and in use in the
23 production of asphalt or of ores bearing lead, zinc, jack or copper
24 or of oil or gas. Provided, the exemption shall include the

1 wellbore and non-recoverable down-hole material, including casing,
2 actually used in the disposal of waste materials produced with such
3 oil or gas. It is expressly declared that no ice plants, hospitals,
4 office buildings, garages, residences, gasoline extraction or
5 absorption plants, water systems, fuel systems, rooming houses and
6 other buildings, nor any equipment or material used in connection
7 therewith, shall be exempt from ad valorem tax.

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

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

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18 56-1EX-50243 SD 10/31/17
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