

1 STATE OF OKLAHOMA

2 1st Session of the 56th Legislature (2017)

3 HOUSE BILL 1632

By: Inman

4
5
6 AS INTRODUCED

7 An Act relating to revenue and taxation; amending 68
8 O.S. 2011, Section 1001, as last amended by Section
9 1, Chapter 346, O.S.L. 2014 (68 O.S. Supp. 2016,
10 Section 1001), which relates to gross production
11 taxes; modifying tax schedule for the production of
12 oil and natural gas; requiring certain monthly
13 calculation by Tax Commission; requiring use of
14 certain indices in calculation; allowing use of
15 alternative indices in certain instance; requiring
16 monthly posting of calculations by certain days; and
17 providing an effective date.

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

19 SECTION 1. AMENDATORY 68 O.S. 2011, Section 1001, as
20 last amended by Section 1, Chapter 346, O.S.L. 2014 (68 O.S. Supp.
21 2016, Section 1001), is amended to read as follows:

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

B. 1. Effective July 1, 2013, through June 30, 2015, except as
otherwise exempted pursuant to subsections D, E, F, G, H, I and J of
this section, there shall be levied upon the production of oil a tax

1 equal to seven percent (7%) of the gross value of the production of
2 oil based on a per barrel measurement of forty-two (42) U.S. gallons
3 of two hundred thirty-one (231) cubic inches per gallon, computed at
4 a temperature of sixty (60) degrees Fahrenheit.

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

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

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

18 b. upon the production of gas a tax equal to seven
19 percent (7%) of the gross value of the production of
20 gas, ~~and~~

21 c. notwithstanding the levies in subparagraphs a and b of
22 this paragraph, the production of oil, gas, or oil and
23 gas from wells spudded on or after July 1, 2015, and
24 prior to January 1, 2018, shall be taxed at a rate of

1 two percent (2%) commencing with the month of first
2 production for a period of thirty-six (36) months.

3 Thereafter, the production shall be taxed as provided
4 in subparagraphs a and b of this paragraph, and

5 d. notwithstanding the levies in subparagraphs a, b and c
6 of this paragraph, the production of oil from wells
7 spudded on or after January 1, 2018, shall be taxed at
8 a rate of:

9 (1) two percent (2%) for oil produced during a month
10 following a month where, pursuant to subsection V
11 of this section, the Tax Commission calculated an
12 applicable spot price per barrel for oil equal to
13 or less than Fifty Dollars (\$50.00),

14 (2) two and five tenths percent (2.5%) for oil
15 produced during a month following a month where,
16 pursuant to subsection V of this section, the Tax
17 Commission calculated an applicable spot price
18 per barrel for oil greater than Fifty Dollars
19 (\$50.00) but equal to or less than Fifty-five
20 Dollars (\$55.00),

21 (3) three percent (3%) for oil produced during a
22 month following a month where, pursuant to
23 subsection V of this section, the Tax Commission
24 calculated an applicable spot price per barrel

1 for oil greater than Fifty-five Dollars (\$55.00)
2 but equal to or less than Sixty Dollars (\$60.00),
3 (4) four percent (4%) for oil produced during a month
4 following a month where, pursuant to subsection V
5 of this section, the Tax Commission calculated an
6 applicable spot price per barrel for oil greater
7 than Sixty Dollars (\$60.00) but equal to or less
8 than Sixty-five Dollars (\$65.00),
9 (5) five percent (5%) for oil produced during a month
10 following a month where, pursuant to subsection V
11 of this section, the Tax Commission calculated an
12 applicable spot price per barrel for oil greater
13 than Sixty-five Dollars (\$65.00) but equal to or
14 less than Seventy Dollars (\$70.00),
15 (6) six percent (6%) for oil produced during a month
16 following a month where, pursuant to subsection V
17 of this section, the Tax Commission calculated an
18 applicable spot price per barrel for oil greater
19 than Seventy Dollars (\$70.00) but equal to or
20 less than Seventy-five Dollars (\$75.00),
21 (7) seven percent (7%) for oil produced during a
22 month following a month where, pursuant to
23 subsection V of this section, the Tax Commission
24 calculated an applicable spot price per barrel

1 for oil greater than Seventy-five Dollars
2 (\$75.00),

3 e. notwithstanding the levies in subparagraphs a, b and c
4 of this paragraph, the production of gas from wells
5 spudded on or after January 1, 2018, shall be taxed at
6 a rate of:

7 (1) two percent (2%) for gas produced during a month
8 following a month where, pursuant to subsection V
9 of this section, the Tax Commission calculated an
10 applicable spot price per million Btu for gas
11 equal to or less than Three Dollars (\$3.00),

12 (2) two and five tenths percent (2.5%) for gas
13 produced during a month following a month where,
14 pursuant to subsection V of this section, the Tax
15 Commission calculated an applicable spot price
16 per million Btu for gas greater than Three
17 Dollars (\$3.00) but equal to or less than Three
18 Dollars and fifty cents (\$3.50),

19 (3) three percent (3%) for gas produced during a
20 month following a month where, pursuant to
21 subsection V of this section, the Tax Commission
22 calculated an applicable spot price per million
23 Btu for gas greater than Three Dollars and fifty
24

1 cents (\$3.50) but equal to or less than Four
2 Dollars (\$4.00),

3 (4) four percent (4%) for gas produced during a month
4 following a month where, pursuant to subsection V
5 of this section, the Tax Commission calculated an
6 applicable spot price per million Btu for gas
7 greater than Four Dollars (\$4.00) but equal to or
8 less than Four Dollars and fifty cents (\$4.50),

9 (5) five percent (5%) for gas produced during a month
10 following a month where, pursuant to subsection V
11 of this section, the Tax Commission calculated an
12 applicable spot price per million Btu for gas
13 greater than Four Dollars and fifty cents (\$4.50)
14 but equal to or less than Five Dollars (\$5.00),

15 (6) six percent (6%) for gas produced during a month
16 following a month where, pursuant to subsection V
17 of this section, the Tax Commission calculated an
18 applicable spot price per million Btu for gas
19 greater than Five Dollars (\$5.00) but equal to or
20 less than Five Dollars and fifty cents (\$5.50),

21 (7) seven percent (7%) for gas produced during a
22 month following a month where, pursuant to
23 subsection V of this section, the Tax Commission
24 calculated an applicable spot price per million

1 Btu for gas greater than Five Dollars and fifty
2 cents (\$5.50).

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

6 D. 1. Except as otherwise provided in this section, for
7 secondary recovery projects approved or having an initial project
8 beginning date on or after July 1, 2000, and before July 1, 2020,
9 any incremental production attributable to the working interest
10 owners which results from such secondary recovery projects shall be
11 exempt from the gross production tax levied pursuant to this section
12 for a period not to exceed five (5) years from the initial project
13 beginning date or for a period ending upon the termination of the
14 secondary recovery process, whichever occurs first.

15 2. Except as otherwise provided in this section, for tertiary
16 recovery projects approved and having a project beginning date on or
17 after July 1, 1993, and before July 1, 2020, any incremental
18 production attributable to the working interest owners which results
19 from such tertiary 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
22 a period of ten (10) years. Project payback pursuant to this
23 paragraph shall be determined by appropriate payback indicators
24 which will provide for the recovery of capital expenses and

1 operating expenses, excluding administrative expenses, in
2 determining project payback. The capital expenses of pipelines
3 constructed to transport carbon dioxide to a tertiary recovery
4 project shall not be included in determining project payback
5 pursuant to this paragraph.

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

9 4. For purposes of this subsection:

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

1 production history of the field, its current status,
2 and sound reservoir engineering principles, and

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

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

13 6. For new secondary recovery projects and tertiary recovery
14 projects approved by the Corporation Commission on or after July 1,
15 1993, and before July 1, 2020, such approval shall constitute
16 qualification for an exemption.

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

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

1 9. Upon the expiration of the exemption granted pursuant to
2 this subsection, the Tax Commission shall collect the gross
3 production tax levied pursuant to this section.

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

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

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

1 shall be apportioned pursuant to the provisions of paragraph 8 of
2 subsection A B of Section 1004 of this title. The taxes collected
3 from the production of gas shall be apportioned pursuant to the
4 provisions of paragraph 4 of subsection A B of Section 1004 of this
5 title.

6 4. The production of oil, gas or oil and gas on or after July
7 1, 2011, and prior to July 1, 2015, from these qualifying wells
8 shall be taxed at a rate of one percent (1%) until the expiration of
9 forty-eight (48) months commencing with the month of initial
10 production.

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

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

1 to July 1, 2020. For all such production, a refund against gross
2 production taxes shall be issued as provided in subsection L of this
3 section.

4 2. As used in this subsection, for wells for which production
5 is reestablished prior to July 1, 1997, "inactive well" means any
6 well that has not produced oil, gas or oil and gas for a period of
7 not less than two (2) years as evidenced by the appropriate forms on
8 file with the Corporation Commission reflecting the well's status.

9 As used in this subsection, for wells for which production is
10 reestablished on or after July 1, 1997, and prior to July 1, 2020,
11 "inactive well" means any well that has not produced oil, gas or oil
12 and gas for a period of not less than one (1) year as evidenced by
13 the appropriate forms on file with the Corporation Commission
14 reflecting the well's status. Wells which experience mechanical
15 failure or loss of mechanical integrity, as defined by the
16 Corporation Commission, including but not limited to, casing leaks,
17 collapse of casing or loss of equipment in a wellbore, or any
18 similar event which causes cessation of production, shall also be
19 considered inactive wells.

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

1 completion of the production enhancement project. This exemption
2 shall take effect July 1, 1994, and shall apply to production
3 enhancement projects having a project beginning date on or after
4 July 1, 1994, and prior to July 1, 2020. For all such production, a
5 refund against gross production taxes shall be issued as provided in
6 subsection L of this section.

7 2. As used in this subsection:

- 8 a. for production enhancement projects having a project
9 beginning date on or after July 1, 1997, and prior to
10 July 1, 2020, "production enhancement project" means
11 any workover as defined in this paragraph,
12 recompletion as defined in this paragraph, reentry of
13 plugged and abandoned wellbores, or addition of a well
14 or field compression,
- 15 b. "incremental production" means the amount of crude
16 oil, natural gas or other hydrocarbons which are
17 produced as a result of the production enhancement
18 project in excess of the base production,
- 19 c. "base production" means the average monthly amount of
20 production for the twelve-month period immediately
21 prior to the commencement of the project or the
22 average monthly amount of production for the twelve-
23 month period immediately prior to the commencement of
24 the project less the monthly rate of production

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

14 d. for production enhancement projects having a project
15 beginning date on or after July 1, 1997, and prior to
16 July 1, 2020, "recompletion" means any downhole
17 operation in an existing oil or gas well that is
18 conducted to establish production of oil or gas from
19 any geologic interval not currently completed or
20 producing in such existing oil or gas well within the
21 same or a different geologic formation, and

22 e. "workover" means any downhole operation in an existing
23 oil or gas well that is designed to sustain, restore
24 or increase the production rate or ultimate recovery

1 in a geologic interval currently completed or
2 producing in the existing oil or gas well. For
3 production enhancement projects having a project
4 beginning date on or after July 1, 1997, and prior to
5 July 1, 2020, "workover" includes, but is not limited
6 to:

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

1 (12) setting bridge plugs to isolate water production
2 zones, or

3 (13) any combination thereof.

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

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

11 2. Except as otherwise provided in subsection K of this
12 section:

13 a. the production of oil, gas or oil and gas from wells
14 spudded between July 1, 1997, and July 1, 2005, and
15 drilled to a depth of twelve thousand five hundred
16 (12,500) feet or greater and wells spudded between
17 July 1, 2005, and July 1, 2015, and drilled to a depth
18 between twelve thousand five hundred (12,500) feet and
19 fourteen thousand nine hundred ninety-nine (14,999)
20 feet shall be exempt from the gross production tax
21 levied pursuant to subsection B of this section from
22 the date of first sales for a period of twenty-eight
23 (28) months,
24

1 b. the production of oil, gas or oil and gas from wells
2 spudded between July 1, 2002, and July 1, 2005, and
3 drilled to a depth of fifteen thousand (15,000) feet
4 or greater and wells spudded between July 1, 2005, and
5 July 1, 2011, and drilled to a depth between fifteen
6 thousand (15,000) feet and seventeen thousand four
7 hundred ninety-nine (17,499) feet shall be exempt from
8 the gross production tax levied pursuant to subsection
9 B of this section from the date of first sales for a
10 period of forty-eight (48) months,

11 c. the production of oil, gas or oil and gas from wells
12 spudded between July 1, 2002, and July 1, 2011, and
13 drilled to a depth of seventeen thousand five hundred
14 (17,500) feet or greater shall be exempt from the
15 gross production tax levied pursuant to subsection B
16 of this section from the date of first sales for a
17 period of sixty (60) months,

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

1 months from the date of first sales. The taxes
2 collected from the production of oil shall be
3 apportioned pursuant to the provisions of paragraph 7
4 of subsection A B of Section 1004 of this title. The
5 taxes collected from the production of gas shall be
6 apportioned pursuant to the provisions of paragraph 3
7 of subsection A B of Section 1004 of this 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. The taxes
15 collected from the production of oil shall be
16 apportioned pursuant to the provisions of paragraph 7
17 of subsection A B of Section 1004 of this title. The
18 taxes collected from the production of gas shall be
19 apportioned pursuant to the provisions of paragraph 3
20 of subsection A B of Section 1004 of this title, and

21 f. the provisions of subparagraphs b and c of this
22 paragraph shall only apply to the production of wells
23 qualifying for the exemption provided under these
24 subparagraphs prior to July 1, 2011. The production

1 of oil, gas or oil and gas on or after July 1, 2011,
2 and before July 1, 2015, from wells qualifying under
3 subparagraph b of this paragraph shall be taxed at a
4 rate of four percent (4%) until the expiration of
5 forty-eight (48) months from the date of first sales
6 and the production of oil, gas or oil and gas on or
7 after July 1, 2011, and before July 1, 2015, from
8 wells qualifying under subparagraph c of this
9 paragraph shall be taxed at a rate of four percent
10 (4%) until the expiration of sixty (60) months from
11 the date of first sales.

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

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

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

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

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

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

19 J. Except as otherwise provided by this section, the production
20 of oil, gas or oil and gas from any well, drilling of which is
21 commenced after July 1, 2000, and prior to July 1, 2015, located
22 within the boundaries of a three-dimensional seismic shoot and
23 drilled based on three-dimensional seismic technology, shall be
24

1 exempt from the gross production tax levied pursuant to subsection B
2 of this section from the date of first sales as follows:

3 1. If the three-dimensional seismic shoot is shot prior to July
4 1, 2000, for a period of eighteen (18) months; and

5 2. If the three-dimensional seismic shoot is shot on or after
6 July 1, 2000, for a period of twenty-eight (28) months. For all
7 such production, a refund against gross production taxes shall be
8 issued as provided in subsection L of this section.

9 K. 1. The exemptions provided for in subsections F, G, I and J
10 of this section, the exemption provided for in subparagraph a of
11 paragraph 2 of subsection H of this section, and the exemptions
12 provided for in subparagraphs b and c of paragraph 2 of subsection H
13 of this section for production from wells spudded before July 1,
14 2005, shall not apply:

15 a. to the severance or production of oil, upon
16 determination by the Tax Commission that the average
17 annual index price of Oklahoma oil exceeds Thirty
18 Dollars (\$30.00) per barrel calculated on an annual
19 calendar year basis, as adjusted for inflation using
20 the Consumer Price Index-All Urban Consumers (CPI-U)
21 as published by the Bureau of Labor Statistics of the
22 U.S. Department of Labor or its successor agency.
23 Such adjustment shall be based on the most current
24 data available for the preceding twelve-month period

1 and shall be applied for the fiscal year which begins
2 on the July 1 date immediately following the release
3 of the CPI-U data by the Bureau of Statistics.

4 (1) The "average annual index price" will be
5 calculated by multiplying the West Texas
6 Intermediate closing price by the "index price
7 ratio". The index price ratio is defined as the
8 immediate preceding three-year historical average
9 ratio of the actual weighted average wellhead
10 price to the West Texas Intermediate close price
11 published on the last business day of each month.

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

15 (3) If the West Texas Intermediate Crude price is
16 unavailable for any reason, an industry benchmark
17 price may be substituted and used for the
18 calculation of the index price as determined by
19 the Tax Commission,

20 b. to the severance or production of oil or gas upon
21 which gross production taxes are paid at a rate of one
22 percent (1%) pursuant to the provisions of subsection
23 B of this section, and
24

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

15 (1) The "average annual index price" will be
16 calculated by multiplying the Henry Hub 3-Day
17 Average Close price by the "index price ratio".
18 The index price ratio is defined as the immediate
19 preceding three-year historical average ratio of
20 the actual weighted average wellhead price to the
21 Henry Hub 3-Day Average Close price published on
22 the last business day of each month.
23
24

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

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

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

20 a. fifty percent (50%) of the sum collected shall be
21 apportioned to the County Highway Fund as provided in
22 subparagraph b of paragraph 1 of subsection A B of
23 Section 1004 of this title, and
24

1 b. fifty percent (50%) of the sum collected shall be
2 apportioned to the appropriate school district as
3 provided in subparagraph c of paragraph 1 of
4 subsection A B of Section 1004 of this title.

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

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

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

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

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 one
8 percent (1%) as specified in subsection B of this
9 section, and

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

21 If there are insufficient funds collected from the production of
22 oil to satisfy the refunds claimed for oil production pursuant to
23 subsection E, F, G, H, I or J of this section, the Tax Commission
24

1 shall pay the balance of the refund claims out of the gross
2 production taxes collected from the production of gas.

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

9 a. a refund shall not be claimed until after the end of
10 such fiscal year. As used in this subsection, a
11 fiscal year shall be deemed to begin on July 1 of one
12 calendar year and shall end on June 30 of the
13 subsequent calendar year,

14 b. unless otherwise specified, no claims for refunds
15 pursuant to the provisions of this subsection shall be
16 filed more than eighteen (18) months after the first
17 day of the fiscal year in which the refund is first
18 available,

19 c. no claims for refunds pursuant to the provisions of
20 this subsection shall be filed by or on behalf of
21 persons other than the operator or a working interest
22 owner of record at the time of production,

23 d. no refunds shall be claimed or paid pursuant to the
24 provisions of this subsection for oil or gas

1 production upon which a tax is paid at a rate of two
2 percent (2%), and

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

14 If there are insufficient funds collected from the production of
15 oil or gas to satisfy the refunds claimed for oil or gas production
16 pursuant to subsection F or G of this section, the Tax Commission
17 shall pay the balance of the refund claims out of the gross
18 production taxes collected from either the production of oil or gas,
19 as necessary.

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

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 this section and the rules shall contain provisions
23 for verification of any wells from which production may be qualified
24 for the exemptions. The Tax Commission shall adopt rules and

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

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

12 3. Any person seeking an exemption shall:

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

17 b. provide a copy of the approved application to the
18 remitter of the gross production tax.

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

22 5. Upon the expiration of an exemption granted pursuant to this
23 section, the Tax Commission shall collect the gross production tax
24 levied pursuant to this section. If a person who qualifies for the

1 exemption elects to remit his or her own gross production tax during
2 the exemption period, the first purchaser shall not be liable to
3 withhold or remit the tax until the first day of the month following
4 the receipt of written notification from the person who is qualified
5 for such exemption stating that such exemption has expired and
6 directing the first purchaser to resume tax remittance on his or her
7 behalf.

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

18 2. On or after July 1, 2015, all persons shall only be entitled
19 to either the exemption granted pursuant to subsection D of this
20 section or the exemption granted pursuant to subsection F or G of
21 this section for each oil, gas, or oil and gas well drilled or
22 recompleted in this state. However, any person who qualifies for
23 the exemption granted pursuant to subsections F and G of this
24 section shall not be prohibited from qualification for the exemption

1 granted pursuant to subsection D of this section if the exemption
2 granted pursuant to subsection F or G of this section has expired.
3 Further, the exemption granted pursuant to subsection D of this
4 section shall not apply to any production upon which a tax is paid
5 at a rate of two percent (2%).

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

15 Q. Any person or any member of any firm or association, or any
16 officer, official, agent or employee of any corporation who shall
17 fail or refuse to testify; or who shall fail or refuse to produce
18 any books, records or papers which the Tax Commission shall require;
19 or who shall fail or refuse to furnish any other evidence or
20 information which the Tax Commission may require; or who shall fail
21 or refuse to answer any competent questions which may be put to him
22 or her by the Tax Commission, touching the business, property,
23 assets or effects of any such person relating to the gross
24 production tax imposed by this article or exemption authorized

1 pursuant to this section or other laws, shall be guilty of a
2 misdemeanor, and, upon conviction thereof, shall be punished by a
3 fine of not more than Five Hundred Dollars (\$500.00), or
4 imprisonment in the jail of the county where such offense shall have
5 been committed, for not more than one (1) year, or by both such fine
6 and imprisonment; and each day of such refusal on the part of such
7 person shall constitute a separate and distinct offense.

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

18 S. The payment of the taxes herein levied shall be in full, and
19 in lieu of all taxes by the state, counties, cities, towns, school
20 districts and other municipalities upon any property rights attached
21 to or inherent in the right to the minerals, upon producing leases
22 for the mining of asphalt and ores bearing lead, zinc, jack or
23 copper, or for oil, or for gas, upon the mineral rights and
24 privileges for the minerals aforesaid belonging or appertaining to

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

16 T. No equipment, material or property shall be exempt from the
17 payment of ad valorem tax by reason of the payment of the gross
18 production tax except such equipment, machinery, tools, material or
19 property as is actually necessary and being used and in use in the
20 production of asphalt or of ores bearing lead, zinc, jack or copper
21 or of oil or gas. Provided, the exemption shall include the
22 wellbore and non-recoverable down-hole material, including casing,
23 actually used in the disposal of waste materials produced with such
24 oil or gas. It is expressly declared that no ice plants, hospitals,

1 office buildings, garages, residences, gasoline extraction or
2 absorption plants, water systems, fuel systems, rooming houses and
3 other buildings, nor any equipment or material used in connection
4 therewith, shall be exempt from ad valorem tax.

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

10 V. 1. Beginning December 2017, and continuing each month
11 thereafter, on the fifth day of each month the Executive Director of
12 the Tax Commission shall calculate:

13 a. the applicable spot price per barrel for oil. For
14 purposes of making such calculation the Commission
15 shall determine the trailing two-month average per-
16 barrel spot price for crude oil, utilizing the WTI-
17 Cushing, Oklahoma Index as it is published by the U.S.
18 Energy Information Administration,

19 b. the applicable spot price per million Btu for gas.
20 For purposes of making such calculation the Commission
21 shall determine the trailing two-month average per
22 million Btu spot price for natural gas, utilizing the
23 Henry Hub Natural Gas Spot Price Index as it is
24

1 published by the U.S. Energy Information
2 Administration, and

3 c. in the event the U.S. Energy Information
4 Administration discontinues publication of applicable
5 price indices referenced in subparagraphs a and b of
6 this paragraph, the Commission shall identify and
7 utilize comparable indices in order to make the
8 calculations required by this paragraph.

9 2. The Tax Commission shall post on the Oklahoma Tax Commission
10 website no later than the tenth day of each month the results of the
11 calculation required by paragraph 1 of this subsection.

12 SECTION 2. This act shall become effective November 1, 2017.

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14 56-1-6334 JM 01/12/17
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