

SENATE CHAMBER
STATE OF OKLAHOMA

DISPOSITION

☐ FLOOR AMENDMENT

No. _____

☐ COMMITTEE AMENDMENT

(Date)

Mr./Madame President:

I move to amend House Bill No. 1033, by substituting the attached floor substitute for the title, enacting clause and entire body of the measure.

Submitted by:

Senator Schulz

Schulz-JCR-FS-Req#39XX
3/14/2018 8:19 PM

(Floor Amendments Only) Date and Time Filed: _____

☐ Untimely

☐ Amendment Cycle Extended

☐ Secondary Amendment

STATE OF OKLAHOMA

2nd Extraordinary Session of the 56th Legislature (2017)

FLOOR SUBSTITUTE
FOR ENGROSSED

HOUSE BILL NO. 1033

By: Wallace and Casey of the
House

and

David and Fields of the
Senate

FLOOR SUBSTITUTE

An Act relating to revenue and taxation; stating purpose pursuant to the authority provided in Section 57 of Article V of the Oklahoma Constitution; imposing additional tax levy upon cigarettes; specifying amount of additional levy; providing for apportionment of revenues; exempting levy from inclusion in determination of certain amounts; requiring certain collections and administration of levy; creating the State Health Care Enhancement Fund; exempting fund from fiscal year limitations; identifying funding source; authorizing appropriations from fund for certain purpose; imposing tax on gasoline and diesel fuel; establishing amount of tax on a per-gallon basis; requiring deposit of certain revenue, penalties and interest in certain fund; amending 68 O.S. 2011, Section 500.10, which relates to exemption from motor fuels tax; extending exemptions to additional tax levy; amending 68 O.S. 2011, Section 1001, as last amended by Section 1, Chapter 5, 1st Extraordinary Session O.S.L. 2017 (68 O.S. Supp. 2017, Section 1001), which relates to gross production tax; limiting time period during which certain rate is applicable; providing for rate applicable to specified production during certain time period; providing for noncodification; and providing for codification.

1
2 BE IT ENACTED BY THE PEOPLE OF THE STATE OF OKLAHOMA:

3 SECTION 1. NEW LAW A new section of law not to be
4 codified in the Oklahoma Statutes reads as follows:

5 The provisions of this measure are enacted pursuant to the
6 authority provided in Section 57 of Article V of the Oklahoma
7 Constitution for a general revenue bill.

8 SECTION 2. NEW LAW A new section of law to be codified
9 in the Oklahoma Statutes as Section 302-7 of Title 68, unless there
10 is created a duplication in numbering, reads as follows:

11 A. For the purpose of providing revenue for the support of the
12 functions of state government, in addition to the tax levied in
13 Sections 302, 302-1, 302-2, 302-3, 302-4 and 302-5 of Title 68 of
14 the Oklahoma Statutes, there is hereby levied upon the sale, use,
15 gift, possession or consumption of cigarettes, as defined in
16 Sections 301 through 325 of Title 68 of the Oklahoma Statutes,
17 within this state, a tax at the rate of fifty (50) mills per
18 cigarette.

19 B. 1. Except as provided in paragraph 2 of this subsection,
20 the revenue resulting from the additional tax levied in subsection A
21 of this section shall be apportioned as provided in paragraph 3 of
22 this subsection.

23 2. The net amount of any revenue resulting from a payment in
24 lieu of excise taxes on cigarettes levied by this section, which net

1 amount shall be calculated after deductions for rebates owed
2 pursuant to a compact with a federally recognized Indian tribe or
3 nation, shall be apportioned as provided in paragraph 3 of this
4 subsection.

5 3. a. Prior to July 1, 2019, the resulting revenues as
6 described by paragraphs 1 and 2 of this subsection
7 shall be apportioned by the Oklahoma Tax Commission
8 and transmitted to the State Treasurer who shall
9 deposit such revenue in the General Revenue Fund.

10 b. Beginning July 1, 2019, the resulting revenues as
11 described by paragraphs 1 and 2 of this subsection
12 shall be apportioned by the Oklahoma Tax Commission
13 and transmitted to the State Treasurer, who shall
14 deposit such revenue to the credit of the State Health
15 Care Enhancement Fund, created in Section 3 of this
16 act.

17 C. No part of the revenues resulting from the additional taxes
18 levied in this section shall be used in determining the amount of
19 cigarette tax collections to be paid into:

20 1. The State of Oklahoma Building Bonds of 1961 Sinking Fund
21 pursuant to the provisions of Sections 57.31 through 57.43 of Title
22 62 of the Oklahoma Statutes;

1 2. The State of Oklahoma Institutional Building Bonds of 1965
2 Sinking Fund pursuant to the provisions of Sections 57.61 through
3 57.73 of Title 62 of the Oklahoma Statutes;

4 3. The State of Oklahoma Institutional Building Bonds of 1965
5 Sinking Fund Series C and Series D pursuant to the provisions of
6 Sections 57.81 through 57.112 of Title 62 of the Oklahoma Statutes;

7 4. The State of Oklahoma Building Bonds of 1968 Sinking Fund
8 pursuant to the provisions of Sections 57.121 through 57.193 of
9 Title 62 of the Oklahoma Statutes; or

10 5. The Oklahoma Building Bonds of 1992 Sinking Fund pursuant to
11 the provisions of Sections 57.300 through 57.313 of Title 62 of the
12 Oklahoma Statutes.

13 D. The cigarette taxes levied in this section shall be
14 collected and administered as provided by law for other cigarette
15 taxes now levied, collected and administered pursuant to the
16 provisions of Sections 301 through 325 of Title 68 of the Oklahoma
17 Statutes.

18 SECTION 3. NEW LAW A new section of law to be codified
19 in the Oklahoma Statutes as Section 302-7a of Title 68, unless there
20 is created a duplication in numbering, reads as follows:

21 There is hereby created in the State Treasury a fund to be
22 designated the "State Health Care Enhancement Fund". The fund shall
23 be a continuing fund, not subject to fiscal year limitations, and
24 shall consist of monies received pursuant to Section 2 of this act

1 and any monies designated to the fund by law. All monies accruing
2 to the credit of the fund are hereby appropriated and shall be used
3 for the purpose of enhancing the health of Oklahomans, as authorized
4 by the Legislature.

5 SECTION 4. NEW LAW A new section of law to be codified
6 in the Oklahoma Statutes as Section 500.4B of Title 68, unless there
7 is created a duplication in numbering, reads as follows:

8 A. For the purpose of providing revenue for the support of the
9 functions of state government, in addition to the tax imposed by
10 Section 500.4 of Title 68 of the Oklahoma Statutes, there is hereby
11 imposed a tax of six cents (\$0.06) per gallon on all:

- 12 1. Gasoline used or consumed in this state; and
- 13 2. Diesel fuel used or consumed in this state.

14 B. All remaining revenue from the tax imposed by subsection A
15 of this section and penalties and interest thereon collected by the
16 Oklahoma Tax Commission, after the requirements of Section 500.63 of
17 Title 68 of the Oklahoma Statutes have been fulfilled, shall be
18 deposited as follows:

19 1. Prior to July 1, 2019, the remaining revenue shall be
20 apportioned by the Oklahoma Tax Commission and transmitted to the
21 State Treasurer who shall deposit such revenue in the General
22 Revenue Fund; and

23 2. Beginning July 1, 2019, the remaining revenue shall be
24 apportioned by the Oklahoma Tax Commission and transmitted to the

1 State Treasurer who shall deposit such revenue in the Rebuilding
2 Oklahoma Access and Driver Safety Fund created in Section 1521 of
3 Title 69 of the Oklahoma Statutes.

4 SECTION 5. AMENDATORY 68 O.S. 2011, Section 500.10, is
5 amended to read as follows:

6 Section 500.10. Subject to the procedural requirements and
7 conditions set out in this section and Sections 500.11 through
8 500.17 of this title, the following are exempt from the ~~tax~~ taxes on
9 motor fuel imposed by Section 500.4 of this title ~~on motor fuel and~~
10 Section 4 of this act:

11 1. Motor fuel for which proof of export is available in the
12 form of a terminal-issued destination state shipping paper:

- 13 a. exported by a supplier who is licensed in the
14 destination state, or
15 b. sold by a supplier to a licensed exporter for
16 immediate export;

17 2. Motor fuel which was acquired by an unlicensed exporter and
18 as to which the tax imposed by Section 500.4 of this title has
19 previously been paid or accrued and was subsequently exported by
20 transport truck by or on behalf of the licensed exporter in a
21 diversion across state boundaries properly reported in conformity
22 with Section 500.46 of this title;

23 3. Motor fuel exported out of a bulk plant in this state in a
24 tank wagon if the destination of that vehicle does not exceed

1 twenty-five (25) miles from the border of this state and as to which
2 the tax imposed by Section 500.4 of this title has previously been
3 paid or accrued, subject to gallonage limits and other conditions
4 established by the Oklahoma Tax Commission;

5 4. K-1 kerosene sold at retail through dispensers which have
6 been designed and constructed to prevent delivery directly from the
7 dispenser into a vehicle fuel supply tank, and K-1 kerosene sold at
8 retail through nonbarricaded dispensers in quantities of not more
9 than twenty-one (21) gallons for use other than for highway
10 purposes, under such rules as the Tax Commission shall reasonably
11 require;

12 5. Motor fuel sold to the United States or any agency or
13 instrumentality thereof;

14 6. Motor fuel used solely and exclusively in district-owned
15 public school vehicles or FFA and 4-H Club trucks for the purpose of
16 legally transporting public school children, and motor fuel
17 purchased by any school district for use exclusively in school buses
18 leased or hired for the purpose of legally transporting public
19 school children, or in the operation of vehicles used in driver
20 training;

21 7. Motor fuel used solely and exclusively as fuel to propel
22 motor vehicles on the public roads and highways of this state, when
23 leased or owned and being operated for the sole benefit of a county,
24 city, town, a volunteer fire department with a state certification

1 and rating, rural electric cooperatives, rural water and sewer
2 districts, rural irrigation districts organized under the Oklahoma
3 Irrigation District Act, conservancy districts and master
4 conservancy districts organized under the Conservancy Act of
5 Oklahoma, rural ambulance service districts, or federally recognized
6 Indian tribes;

7 8. Motor fuel used as fuel for farm tractors or stationary
8 engines owned or leased and operated by any person and used
9 exclusively for agricultural purposes, except as to two and eight
10 one-hundredths cents (\$0.0208) per gallon of gasoline as provided in
11 subsection C of Section 500.4 of this title;

12 9. Gasoline, diesel fuel and kerosene sold for use as fuel to
13 generate power in aircraft engines, whether in aircraft or for
14 training, testing or research purposes of aircraft engines, except
15 as to eight one-hundredths of one cent (\$0.0008) per gallon as
16 provided in subsection B of Section 500.4 of this title;

17 10. Motor fuel sold within an Indian reservation or within
18 Indian country by a federally recognized Indian tribe to a member of
19 that tribe and used in motor vehicles owned by that member of the
20 tribe. This exemption does not apply to sales within an Indian
21 reservation or within Indian country by a federally recognized
22 Indian tribe to non-Indian consumers or to Indian consumers who are
23 not members of the tribe selling the motor fuel;

1 11. Subject to determination by the Tax Commission, that
2 portion of diesel fuel:

- 3 a. used to operate equipment attached to a motor vehicle,
4 if the diesel fuel was placed into the fuel supply
5 tank of a motor vehicle that has a common fuel
6 reservoir for travel on a highway and for the
7 operation of equipment, or
8 b. consumed by the vehicle while the vehicle is parked
9 off the highways of this state;

10 12. Motor fuel acquired by a consumer out of state and carried
11 into this state, retained within and consumed from the same vehicle
12 fuel supply tank within which it was imported;

13 13. Diesel fuel used as heating oil, or in railroad locomotives
14 or any other motorized flanged-wheel rail equipment, or used for
15 other nonhighway purposes other than as expressly exempted under
16 another provision;

17 14. Motor fuel which was lost or destroyed as a direct result
18 of a sudden and unexpected casualty;

19 15. Taxable diesel which had been accidentally contaminated by
20 dye so as to be unsaleable as highway fuel as proved by proper
21 documentation;

22 16. Dyed diesel fuel;
23
24

1 17. Motor fuel sold to the Oklahoma Space Industry Development
2 Authority or any spaceport user as defined in the Oklahoma Space
3 Industry Development Act; and

4 18. Biofuels or biodiesel produced by an individual with crops
5 grown on property owned by the same individual and used in a vehicle
6 owned by the same individual on the public roads and highways of
7 this state.

8 SECTION 6. AMENDATORY 68 O.S. 2011, Section 1001, as
9 last amended by Section 1, Chapter 5, 1st Extraordinary Session
10 O.S.L. 2017 (68 O.S. Supp. 2017, Section 1001), is amended to read
11 as follows:

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

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

22 2. Effective July 1, 2013, through June 30, 2015, except as
23 otherwise exempted pursuant to subsections D, E, F, G, H, I and J of
24

1 this section, there shall be levied a tax equal to seven percent
2 (7%) of the gross value of the production of gas.

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

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

12 b. upon the production of gas a tax equal to seven
13 percent (7%) of the gross value of the production of
14 gas, ~~and~~

15 c. notwithstanding the levies in subparagraphs a and b of
16 this paragraph, the production of oil, gas, or oil and
17 gas from wells spudded on or after July 1, 2015, and
18 prior to the effective date of this act, shall be
19 taxed at a rate of two percent (2%) commencing with
20 the month of first production for a period of thirty-
21 six (36) months; provided however, such production
22 occurring on or after the effective date of this act
23 for the remainder of such thirty-six-month period
24 shall be taxed at a rate of four percent (4%).

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

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

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

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

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

21 4. For purposes of this subsection:

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

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

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

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

1 6. For new secondary recovery projects and tertiary recovery
2 projects approved by the Corporation Commission on or after July 1,
3 1993, and before July 1, 2017, such approval shall constitute
4 qualification for an exemption.

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

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

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

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

1 shall not include any expenses beyond the completion date of the
2 well, and subject to the approval of the Tax Commission.

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

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

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

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

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

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

(3) If the Henry Hub 3-Day Average Close price is 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.

2. Notwithstanding the exemptions granted pursuant to subsections F, G, I, J, paragraph 1 of subsection E, and subparagraph a of paragraph 2 of subsection H of this section, there shall continue to be levied upon the production of petroleum or other crude or mineral oil or natural gas or casinghead gas, as provided in subsection B of this section, from any wells provided for in subsections F, G, I, J, paragraph 1 of subsection E, and subparagraph a of paragraph 2 of subsection H of this section, a tax equal to one percent (1%) of the gross value of the production of petroleum or other crude or mineral oil or natural gas or casinghead 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 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,
24

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

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.
24

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.

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