

# OKLAHOMA TAX COMMISSION

TAX POLICY AND RESEARCH DIVISION  
TONY MASTIN, DIRECTOR

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July 3, 2002

Re: Our File No. LR-02-073, Gross Production Tax.

Dear

In regard to your 2002 Incentive Survey, I have summarized legislative action taken this last session regarding Gross Production Tax.

Senate Bill 947 was signed into law providing for a variable rate gross production tax on the production of gas in Oklahoma. Amendments were also made to the Horizontal Well Rebate, Deep Well Rebate and the Rebate Price Cap.

**Title 68 O.S. 1001 (B)** was amended to change the gross production tax rate levied on gas from a fixed rate of 7% to a variable rate of either 7%, 4% or 1%. The applicable rate will be determined by the average monthly price of Oklahoma gas.

The average price of gas as determined by the Oklahoma Tax Commission is computed each month by using Oklahoma average pricing information published monthly according to appropriate reference material prescribed by the Tax Commission.

Effective with July 2002 production month, the Gross Production Tax rate on gas is as follows:

- If the average price of Oklahoma gas equals or exceeds Two Dollars and Ten Cents (\$2.10) per mcf, the tax shall be seven percent (7%).
- If the average price of Oklahoma gas is less than Two Dollars and Ten Cents (\$2.10) but is equal to or exceeds One Dollar and Seventy Five Cents (\$1.75) per mcf, then the tax shall be four percent (4%).
- If the average price of Oklahoma gas is less than One Dollar and Seventy-Five Cents (\$1.75) per mcf, then the tax shall be one percent (1%).

The applicable tax rate on gas will be posted on the Tax Commission Internet web site at [www.oktax.state.ok.us](http://www.oktax.state.ok.us) and also made available by calling (405) 522-5031.  
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**Title 68 O.S. 1001 (E)** was amended to extend the exemption period on Horizontally Drilled Wells from twenty-four (24) months to forty-eight (48) months or until project payback is achieved. The amendment is effective for wells certified as being horizontally drilled and producing prior to July 1, 2003, wherein production commenced after July 1, 2002.

**Title 68 O.S. 1001 (H)** was amended to extend the exemption period on Deep Wells based upon the completed depth. Wells completed between 12,500 feet and 14,999 feet will continue to be exempt for a period of twenty-eight (28) months. Wells spudded between July 1, 2002 and June 30, 2003 and which are completed between 15,000 feet and 17,499 feet will be exempt for a period of forty-eight (48) months. Wells spudded between July 1, 2002 and June 30, 2003 and which are completed at 17,500 feet or greater will be exempt for a period of sixty (60) months.

Each of the following incentive exemptions, "Reestablished Production", "Production Enhancement", "Deep Well", "New Discovery" and "3-D Seismic" are contingent upon the average price of oil and/or gas for each calendar year period as provided for under 68 O.S. Sec. 1001 (K). The statute originally placed a ceiling price of \$30.00 per barrel of oil and \$3.50 per mmbtu of gas. In the event the average calendar year price of Oklahoma oil and/or gas exceeds the established ceiling price, the exemption rebates applicable to the current fiscal year period would be void.

**Title 68 O.S. 1001 (K)** was amended to increase the price cap of gas from \$3.50 per mmbtu to \$5.00 per mcf effective with calendar year 2002.

In calendar year 2001 (January through December) the price of Oklahoma gas exceeded the established price cap. Therefore, certified wells producing gas during the months of July 2001 through June 2002 will lose these twelve months of their exempt eligibility.

If you should have any questions or need additional information, you may contact me at 405-521-3133.

Sincerely,

Mark J. Hendrix  
Tax Policy Analyst