

# OKLAHOMA TAX COMMISSION

TAX POLICY DIVISION  
DAWN CASH, DIRECTOR

PHONE (405) 521-3133  
FACSIMILE (405) 522-0063

February 2, 2010

Re: LR-09-175 (Gross Production Tax) pertaining to the definition of payout.

Dear [REDACTED]

This letter is in response to your inquiry regarding the definition of the term "Horizontally Drilled Payout" as it pertains to the gross production tax rebate for qualified horizontally drilled wells.

As defined in Rule 710:65-9-21 of the Oklahoma Administrative Code, the term "Horizontally drilled payout " means the point at which gross working interest revenue from the horizontally drilled well equals the cost of drilling and completing such well. Your request for an opinion on the matter specifically focuses on the Tax Commission's long-standing interpretation and application of the phrase "gross working interest revenue" as contained in promulgated Rule 710:65-9-21 relating to the exemption from the levy of Gross Production Tax on horizontally drilled production wells as provided in 68 O.S. § 1001(E).

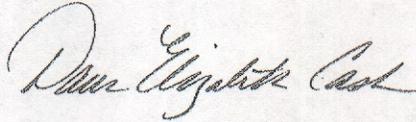
We acknowledge receipt and review of your submitted documentation from respected industry sources which may reflect alternative viewpoints. However, rules of the Oklahoma Tax Commission, which have been promulgated under the terms of the Administrative Procedures Act (APA), have the full force and effect of law and continue in effect until amended or revoked under APA provisions. Oklahoma Tax Commission Rule 710:45-9-23, of the Oklahoma Administrative Code, appears controlling on the matter and specifically states that, "Costs allowed in computing horizontally drilled well payout shall include only the costs of drilling and completing the well and shall not include any costs incurred after the completion date. Neither shall it include lease acquisition costs, tank batteries, meters pipelines or other external equipment."

If you should have any questions or need additional information you may contact me at 405.521.3133

This response applies only to the circumstances set out in your request of October 27, 2009. Pursuant to Commission Rule 710:1-3-73(e), this Letter Ruling may be generally relied upon only by the entity to whom it is issued, assuming that all pertinent facts have been accurately and completely stated, and that there has been no change in applicable law.

Sincerely,

OKLAHOMA TAX COMMISSION

A handwritten signature in cursive script that reads "Dawn Elizabeth Cash". The signature is written in dark ink and is positioned above the printed name and title.

Dawn Cash, Director  
*Tax Policy & Research Division*