

BILL SUMMARY
2nd Session of the 58th Legislature

Bill No.:	HB 3568
Version:	INT
Request Number:	8904
Author:	Rep. McBride
Date:	2/9/2022
Impact:	Tax Commission:

Gross Production Tax Decrease:
FY-23: (\$1,266,000)
FY-24: Unknown

Administrative Costs Unknown

Corporation Commission:

Personnel Cost Estimate: \$220,000
Digital Processing Development: \$500,000

Research Analysis

HB3568, as introduced, creates gross production tax (GPT) incentives for certain incremental production from secondary recovery projects, tertiary recovery projects and production enhancement projects with an initial project start date on or after July 1, 2022. The Oklahoma Corporation Commission is responsible for promulgating rules for incentive qualification and approving eligible projects. The oil and gas production eligible for the gross production tax incentives will be paid in the form a refund issued to the well operator or a designee at the end the fiscal year that the GPT tax was levied.

Each project type has a separate exemption period as follows:

Secondary recovery projects: up to 5 years
Tertiary recovery projects: up to 10 years
Production enhancement projects: up to 28 months

Prepared By: Quyen Do

Fiscal Analysis

Analysis provided by the Tax Commission:

The measure proposes amending 68 O.S. § 1001, which relates to gross production tax (“GPT”) by creating exemption for certain secondary recovery projects, limiting exemption under certain circumstances, defining terms, authorizing Corporation Commission (“OCC”) to promulgate rules, providing procedures to qualify for such exemptions. Further, this measure proposes creating exemption for certain production enhancement projects, defining terms, allowing refunds for certain projects, and prescribing refunds procedure.

Under this measure,

Based on the average amount of approved claims for Secondary/Tertiary Recovery Projects from FY12 to FY17 and assuming that there shall be comparable amount of approved claims for Secondary/Tertiary Recovery Projects for FY23 following decline in GPT collection is expected from Secondary/Tertiary Recovery Projects:

Secondary/Tertiary Recovery Exemption= \$1,266,000

Similarly, based on the average amount of approved claims for Production Enhancement Projects from FY12 to FY17 and approximately 14.29% increase due to the proposed measure being for the full tax paid, the following decline in GPT collection shall be expected from Production Enhancement Projects. Previously taxpayers effectively got a refund that was 6/7th of the tax exempt. Under this measure, they will be getting the full 7/7th, an additional 1/7th (~14.29%).

Production Enhancement Projects = \$16,537,000+14.29%*\$16,537,000 =\$18,900,000

For FY23: There shall be approximately \$1,266,000 decline in GPT collections from Secondary/Tertiary Recovery Exemptions. No impact of Production Enhancement Projects will be observed in FY23.

Production Enhancement Project exemptions are granted as refunds which shall be claimed after the end of the fiscal year, and no later than 18 months. Therefore, the amount of refunds granted in FY24 is unknown for such Projects.

Prepared By: Mark Tygret

Other Considerations

Administrative costs related to the provisions of the measure are presently unknown.

Corporation Commission Estimates

Comments provided by the Corporation Commission:

The Oil and Gas Division will need funding to accommodate the requirements of the measure. Staff requirements would include at least one (1) administrative person and two (2) oil and gas specialists to accomplish the review and processing of applications for the exemption. An online system to file applications and associated documents would need to be developed to provide a streamlined and efficient process in line with the agency's current digital transformation and ultimately connected to the Tax Commission for final processing of approved applications.

Other comments:

The provisions could also affect Judicial and Legislative Services (JLS) if an application is denied and the operator files a case.

The measure could possibly take some of the wells off the Orphan Well list if operators saw this opportunity to return some of the wells to production, saving the state from plugging the wells.

