

## CHAPTER 45. GROSS PRODUCTION

### SUBCHAPTER 5. REQUIRED RETURNS AND REPORTS

#### 710:45-5-1. Monthly production reports

(a) **Minimum requirements of monthly production report.** All producers or purchasers of asphalt or ores bearing lead, zinc, jack, or copper or petroleum oil, mineral oil, other crude oil, condensate, reclaimed oil, gas, natural gas, casinghead gas, or liquid hydrocarbons from oil or gas produced in this state shall report volume and value of such production monthly on OTC Form 341 or any other form as may be prescribed and required by the Oklahoma Tax Commission. Each monthly report shall include the following information:

- (1) Tax Commission assigned purchaser reporting number;
- (2) Tax Commission assigned producer reporting number;
- (3) Tax Commission assigned production unit number, subnumber, and merge number for each lease from which production is reported;
- (4) Assigned product code number for the product reported;
- (5) Gross volume of the product reported from each lease from which production is reported;:
  - (A) Crude oil and reclaimed oil are reported to the nearest hundredth barrel on a per barrel measurement of forty-two (42) U.S. gallons of two hundred thirty-one (231) cubic inches per gallon, computed at a temperature of sixty (60) degrees Fahrenheit.
  - (B) Natural gas is reported to the nearest thousand cubic feet (MCF) at the standard pressure base of fourteen and sixty-five hundredths (14.65) pounds per square inch absolute at the standard temperature base of sixty (60) degrees Fahrenheit.
  - (C) Natural gas liquids are reported to the nearest gallon.
- (6) Total value of the product reported from each lease from which production is reported; and, the gross production tax, the petroleum excise tax, Oklahoma energy resource board fee, and sustaining energy resources fee;
- (7) Taxpayer identification number, social security number (SSN), or, if applicable, the federal employer identification number (FEI);
- (8) The month and year the product reported was sold;
- (9) The Tax Commission assigned tax remitter reporting number.

(b) **Reports must be filed electronically.** OTC Forms 341 and 323-A must be filed electronically in the format prescribed by the Tax Commission.

### SUBCHAPTER 9. EXEMPTIONS AND EXCLUSIONS

#### PART 17. ECONOMICALLY AT-RISK LEASES

##### 710:45-9-81. Definitions

The following words and terms, when used in this Chapter, shall have the following meaning, unless the context clearly indicates otherwise:

**"Active production days"** means any day in which oil or natural gas was produced by the lease as reflected in the daily production logs.

**"Calendar year"** means January 1 through December 31.

**"Economically at-risk oil or gas lease"** means beginning with calendar year 2022, and each year thereafter:

(A) Any Tax Commission assigned production unit number classified as an oil lease that operated at a net profit which is less than the total gross production tax remitted for such lease during the ~~tax reporting~~ production year with an average production volume per well of ten (10) barrels or less of oil and the monthly average price of oil for the year was less than Fifty Dollars (\$50.00) per barrel; and

(B) Any Tax Commission assigned production unit number classified as a gas lease that operated at a net loss or a net profit which is less than the total gross production tax remitted for such lease during the ~~tax reporting~~ production year with an average production volume per lease of sixty (60) MCF or less of natural gas per day and the "monthly average price of gas" for the year was less than Three Dollars and Fifty Cents (\$3.50) per MMBtu.

**"Production year"** means the calendar year in which the active production days occur.

##### 710:45-9-81.1. Determination of average production volume and monthly average price of oil and gas

(a) Average production volume shall be determined based upon the lease classification, wherein only the primary product shall be used to determine the average production volume. For example, an oil lease that produced 2,789 barrels over 342 active production days during the calendar year would have an average volume of 8.16 barrels per day. For example:

(1) An oil lease that produced 2,789 barrels over 342 active production days during the calendar year would have an average volume of 8.15 barrels per day.

(2) A gas lease that produced 13,481 MCF with a btu rate of 1.076 over 281 active production days during the calendar year would have an average volume of 51.62 MMBtu per day.

(b) Monthly average price of oil shall be determined by taking the gross value of oil produced during the calendar year divided by the gross volume of oil produced from the lease, based on a per-barrel measurement of forty-two (42) U.S. gallons of two hundred thirty-one (231) cubic inches per gallon, computed at a temperature of sixty (60) degrees Fahrenheit.

(c) Monthly average price of gas shall be determined by taking the gross value of natural gas produced during the calendar year divided by the gross volume of natural gas produced based on a measurement of one million (1,000,000) British thermal units (MMBtu).

#### **710:45-9-83. Certification**

(a) **General provisions.** This Section establishes criteria for determining whether an operator of an economically at-risk oil lease has met the required conditions to apply for an exemption from gross production tax levied on such and establishes a procedure for the issuance of the refund.

(b) **Application to Oklahoma Tax Commission; determination; approval.** Any operator who desires to make application to have a lease certified as being economically at-risk shall submit electronically through the Oklahoma Taxpayer Access Point (OKTAP) the following information at the time of submission:

(1) Properly completed Form 329;

(2) Division Order(s) supporting the applicable royalty interest payments made during the claim period;

(3) An itemization of all expenses claimed as lease operating expenses;

(4) For leases governed by a Joint Operating Agreement (JOA) a copy of the JOA, including the accounting procedures attached to the JOA showing the base rate used to escalate per the Council of Petroleum ~~Accounts~~ Accountants Societies (COPAS) for the overhead expense; ~~and~~

(5) Copies of the daily production reports for the calendar year applied; ~~and~~

(6) A Percent of Proceeds (POP) statement is required to support ratios when MMBtu to MCF is not 1:1.

(c) **Qualifying lease.** A qualifying lease shall include a gas lease and an oil lease but shall not include a brine lease.

(d) **Net profit/loss calculation.** For each calendar year, subtract from the gross revenue of the lease any severance taxes, royalty payments, and lease operating expenses, including expendable workover and recompletion costs for the applicable calendar year, and overhead escalation costs up to the maximum overhead percentage allowed by the Council of Petroleum Accountants Societies (COPAS). Should a JOA for the lease not exist, documentation is required to support the costs used to calculate the overhead deduction claimed and the method used to allocate the amount back to the production unit number. For purposes of this calculation, depreciation, depletion, and intangible drilling costs shall **not** be included.

(e) **Tax Commission may require additional information.** For audit purposes, the Tax Commission may require additional information, such as copies of the operator's federal income tax return, joint interest billings, or other documentation regarding lease production or expenses.

(f) **Denial of application.** Failure to submit all required information at the time of application may result in a denial of the application.

(g) **Burden of proof.** The burden of establishing the right to, and the validity of, a credit or refund is on the claimant.

## **PART 21. MARKETING COSTS DEDUCTION**

#### **710:45-9-102. Qualifying criteria**

Qualified deductions of marketing costs shall comply with the provisions of (1) through ~~(4)~~(5) of this Subsection. The marketing cost deduction may be disallowed by the Tax Commission for failure to submit supporting documentation sufficient ~~documentation to support to validate the deduction at the time of application.~~

(1) Marketing costs shall not include any costs incurred in the production of gas, oil or condensate or in the separation therefrom of any product subject to gross production tax.

(2) Taxes shall be computed on gross proceeds, including tax reimbursement, less the cost of gathering, compressing, and treating the gas sold.

(3) Documents required to be submitted with the application for refund shall include all of the following:

(A) A notarized affidavit stating the costs requested as deductions to the gross proceeds are for marketing expenses and not for production of the lease.

(B) An electronic spreadsheet of the operator's claimed marketing expenses allowed by Appendix A.

(C) Supporting documentation for the remitter's previously claimed marketing cost deductions, including:

(i) Check stubs; and

(ii) Settlement statements.

(D) Supporting documentation for operator's marketing cost deductions.

(i) If invoices are used as documentation, ~~invoices~~ invoices for all costs claimed shall be made available upon request and must clearly indicate the facility incurring the cost and include a detailed description

of the cost. If the invoice does not specify the cost was incurred on allowable marketing equipment, a job/work ticket must accompany the invoice describing the work that was done. Journal entries are not eligible as documentation of support for services provided by third parties.

(E) Electronic spreadsheet documenting the operator's pumper and compressor expenses allocated by production unit number.

(F) Electronic depreciation schedules:

~~(4)~~ (i) Any claimed depreciable equipment must be supported by documentation showing the original depreciable value. If the depreciable equipment was purchased, the original invoice is required. If the depreciable equipment was obtained through an acquisition of wells, documents from the acquisition indicating how the value of the depreciable equipment was determined must be provided.

(ii) Depreciation schedule allocating the equipment cost over the life of equipment by production unit number.

(iii) Allocation schedule of depreciation for equipment used for multiple production unit numbers.

(4) The Tax Commission may require additional information, including, but not limited to, copies of the operator's federal income tax return, joint interest billings, or other documentation regarding lease production or expenses.

(5) The burden of establishing the right to, and the validity of, a credit or refund is on the claimant.