

By: Representative Reeves

To: Oil, Gas and Other  
Minerals; Ways and Means

HOUSE BILL NO. 1201

1 AN ACT TO AMEND SECTION 27-25-703, MISSISSIPPI CODE OF 1972,  
2 TO REVISE THE TAX RATE ON NATURAL GAS PRODUCED FROM COAL SEAMS  
3 FROM JULY 1, 2004 TO JULY 1, 2007; AND FOR RELATED PURPOSES.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MISSISSIPPI:

5 **SECTION 1.** Section 27-25-703, Mississippi Code of 1972, is  
6 amended as follows:

7 \* \* \*

8 27-25-703. (1) Except as otherwise provided herein, there  
9 is hereby levied, to be collected hereafter, as provided herein,  
10 annual privilege taxes upon every person engaging or continuing  
11 within this state in the business of producing, or severing gas,  
12 as defined herein, from below the soil or water for sale,  
13 transport, storage, profit or for commercial use. The amount of  
14 such tax shall be measured by the value of the gas produced and  
15 shall be levied and assessed at a rate of six percent (6%) of the  
16 value thereof at the point of production, except as otherwise  
17 provided in subsection (4) of this section.

18 (2) The tax is hereby levied upon the entire production in  
19 this state, regardless of the place of sale or to whom sold or by  
20 whom used, or the fact that the delivery may be made to points  
21 outside the state, but not levied upon that gas, including carbon  
22 dioxide, lawfully injected into the earth for cycling,  
23 repressuring, lifting or enhancing the recovery of oil, nor upon  
24 gas lawfully vented or flared in connection with the production of  
25 oil, nor upon gas condensed into liquids on which the oil  
26 severance tax of six percent (6%) is paid; save and except,  
27 however, if any gas so injected into the earth is sold for such

28 purposes, then the gas so sold shall not be excluded in computing  
29 the tax, unless such gas is carbon dioxide which is sold to be  
30 used and is used in Mississippi in an enhanced oil recovery  
31 method, in which event there shall be no severance tax levied on  
32 carbon dioxide so sold and used. The tax shall accrue at the time  
33 the gas is produced or severed from the soil or water, and in its  
34 natural, unrefined or unmanufactured state.

35 (3) Natural gas and condensate produced from any wells for  
36 which drilling is commenced after March 15, 1987, and before July  
37 1, 1990, shall be exempt from the tax levied under this section  
38 for a period of two (2) years beginning on the date of first sale  
39 of production from such wells.

40 (4) Except as otherwise provided in this subsection (4), any  
41 well which begins commercial production of occluded natural gas  
42 from coal seams on or after March 20, 1990, and before July 1,  
43 1993, shall be taxed at the rate of three and one-half percent  
44 (3-1/2%) of the gross value of the occluded natural gas from coal  
45 seams at the point of production for a period of five (5) years  
46 after such well begins production. However, any well which begins  
47 commercial production of occluded natural gas from coal seams on  
48 or after July 1, 2004, and before July 1, 2007, shall be taxed at  
49 the rate of three percent (3%) of the gross value of the occluded  
50 natural gas from coal seams at the point of production for a  
51 period of five (5) years beginning on the date of the first sale  
52 of production from the well.

53 (5) (a) Natural gas produced from discovery wells for which  
54 drilling or re-entry commenced on or after April 1, 1994, but  
55 before July 1, 1999, shall be exempt from the tax levied under  
56 this section for a period of five (5) years beginning on the  
57 earlier of one (1) year from completion of the well or the date of  
58 first sale from such well, provided that the average monthly sales  
59 price of such gas does not exceed Three Dollars and Fifty Cents  
60 (\$3.50) per one thousand (1,000) cubic feet. The exemption for

61 natural gas produced from discovery wells as described in this  
62 paragraph (a) shall be repealed from and after July 1, 2003,  
63 provided that any such production for which a permit was granted  
64 by the board before July 1, 2003, shall be exempt for an entire  
65 period of five (5) years, notwithstanding that the repeal of this  
66 provision has become effective. Natural gas produced from  
67 development wells or replacement wells drilled in connection with  
68 discovery wells for which drilling commenced on or after January  
69 1, 1994, shall be assessed at a rate of three percent (3%) of the  
70 value thereof at the point of production for a period of three (3)  
71 years. The reduced rate of assessment of natural gas produced  
72 from development wells or replacement wells as described in this  
73 paragraph (a) shall be repealed from and after January 1, 2003,  
74 provided that any such production for which drilling commenced  
75 before January 1, 2003, shall be assessed at the reduced rate for  
76 an entire period of three (3) years, notwithstanding that the  
77 repeal of this provision has become effective.

78 (b) Natural gas produced from discovery wells for which  
79 drilling or re-entry commenced on or after July 1, 1999, shall be  
80 assessed at a rate of three percent (3%) of the value thereof at  
81 the point of production for a period of five (5) years beginning  
82 on the earlier of one (1) year from completion of the well or the  
83 date of first sale from such well, provided that the average  
84 monthly sales price of such gas does not exceed Two Dollars and  
85 Fifty Cents (\$2.50) per one thousand (1,000) cubic feet. The  
86 reduced rate of assessment of natural gas produced from discovery  
87 wells as described in this paragraph (b) shall be repealed from  
88 and after July 1, 2003, provided that any such production for  
89 which a permit was granted by the board before July 1, 2003, shall  
90 be assessed at the reduced rate for an entire period of five (5)  
91 years, notwithstanding that the repeal of this provision has  
92 become effective. Natural gas produced from development wells or  
93 replacement wells drilled in connection with discovery wells for

94 which drilling commenced on or after July 1, 1999, shall be  
95 assessed at a rate of three percent (3%) of the value thereof at  
96 the point of production for a period of three (3) years. The  
97 reduced rate of assessment of natural gas produced from  
98 development wells or replacement wells as described in this  
99 paragraph (b) shall be repealed from and after January 1, 2003,  
100 provided that any such production for which drilling commenced  
101 before January 1, 2003, shall be assessed at the reduced rate for  
102 an entire period of three (3) years, notwithstanding that the  
103 repeal of this provision has become effective.

104 (6) (a) Gas produced from a development well for which  
105 drilling commenced on or after April 1, 1994, but before July 1,  
106 1999, and for which three-dimensional seismic was utilized in  
107 connection with the drilling of such well, shall be assessed at a  
108 rate of three percent (3%) of the value of the gas at the point of  
109 production for a period of five (5) years, provided that the  
110 average monthly sales price of such gas does not exceed Three  
111 Dollars and Fifty Cents (\$3.50) per one thousand (1,000) cubic  
112 feet. The reduced rate of assessment of gas produced from a  
113 development well as described in this subsection and for which  
114 three-dimensional seismic was utilized shall be repealed from and  
115 after July 1, 2003, provided that any such production for which a  
116 permit was granted by the board before July 1, 2003, shall be  
117 assessed at the reduced rate for an entire period of five (5)  
118 years, notwithstanding that the repeal of this provision has  
119 become effective.

120 (b) Gas produced from a development well for which  
121 drilling commenced on or after July 1, 1999, and for which  
122 three-dimensional seismic was utilized in connection with the  
123 drilling of such well, shall be assessed at a rate of three  
124 percent (3%) of the value of the gas at the point of production  
125 for a period of five (5) years, provided that the average monthly  
126 sales price of such gas does not exceed Two Dollars and Fifty

127 Cents (\$2.50) per one thousand (1,000) cubic feet. The reduced  
128 rate of assessment of gas produced from a development well as  
129 described in this paragraph (b) and for which three-dimensional  
130 seismic was utilized shall be repealed from and after July 1,  
131 2003, provided that any such production for which a permit was  
132 granted by the board before July 1, 2003, shall be assessed at the  
133 reduced rate for an entire period of five (5) years,  
134 notwithstanding that the repeal of this provision has become  
135 effective.

136 (7) (a) Natural gas produced before July 1, 1999, from a  
137 two-year inactive well as defined in Section 27-25-701 shall be  
138 exempt from the taxes levied under this section for a period of  
139 three (3) years beginning on the date of first sale of production  
140 from such well, provided that the average monthly sales price of  
141 such gas does not exceed Three Dollars and Fifty Cents (\$3.50) per  
142 one thousand (1,000) cubic feet. The exemption for natural gas  
143 produced from an inactive well as described in this subsection  
144 shall be repealed from and after July 1, 2003, provided that any  
145 such production which began before July 1, 2003, shall be exempt  
146 for an entire period of three (3) years, notwithstanding that the  
147 repeal of this provision has become effective.

148 (b) Natural gas produced on or after July 1, 1999, from  
149 a two-year inactive well as defined in Section 27-25-701 shall be  
150 exempt from the taxes levied under this section for a period of  
151 three (3) years beginning on the date of first sale of production  
152 from such well, provided that the average monthly sales price of  
153 such gas does not exceed Two Dollars and Fifty Cents (\$2.50) per  
154 one thousand (1,000) cubic feet. The exemption for natural gas  
155 produced from an inactive well as described in this paragraph (b)  
156 shall be repealed from and after July 1, 2003, provided that any  
157 such production which began before July 1, 2003, shall be exempt  
158 for an entire period of three (3) years, notwithstanding that the  
159 repeal of this provision has become effective.

160           (8) The State Oil and Gas Board shall have the exclusive  
161 authority to determine the qualification of wells defined in  
162 paragraphs (n) through (r) of Section 27-25-701.

163           **SECTION 2.** This act shall take effect and be in force from  
164 and after July 1, 2004.