

By: Senator(s) Dearing, Pickering

To: Finance

SENATE BILL NO. 3063

1 AN ACT TO AMEND SECTION 27-25-703, MISSISSIPPI CODE OF 1972,
2 TO PROVIDE THAT ANY WELL WHICH BEGINS COMMERCIAL PRODUCTION OF
3 OCCLUDED NATURAL GAS FROM COAL SEAMS ON OR AFTER JULY 1, 2004, AND
4 BEFORE JULY 1, 2007, SHALL BE TAXED AT THE RATE OF 3% OF THE GROSS
5 VALUE OF THE OCCLUDED NATURAL GAS FROM COAL SEAMS AT THE POINT OF
6 PRODUCTION FOR A PERIOD OF 5 YEARS BEGINNING ON THE DATE OF THE
7 FIRST SALE OF PRODUCTION FROM SUCH WELL; AND FOR RELATED PURPOSES.

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

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

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

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

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

38 (3) Natural gas and condensate produced from any wells for
39 which drilling is commenced after March 15, 1987, and before July
40 1, 1990, shall be exempt from the tax levied under this section
41 for a period of two (2) years beginning on the date of first sale
42 of production from such wells.

43 (4) (a) Any well which begins commercial production of
44 occluded natural gas from coal seams on or after March 20, 1990,
45 and before July 1, 1993, shall be taxed at the rate of three and
46 one-half percent (3-1/2%) of the gross value of the occluded
47 natural gas from coal seams at the point of production for a
48 period of five (5) years after such well begins production.

49 (b) Any well which begins commercial production of
50 occluded natural gas from coal seams on or after July 1, 2004, and
51 before July 1, 2007, shall be taxed at the rate of three percent
52 (3%) of the gross value of the occluded natural gas from coal
53 seams at the point of production for a period of five (5) years
54 beginning on the date of the first sale of production from such
55 well.

56 (5) (a) Natural gas produced from discovery wells for which
57 drilling or reentry commenced on or after April 1, 1994, but
58 before July 1, 1999, shall be exempt from the tax levied under
59 this section for a period of five (5) years beginning on the
60 earlier of one (1) year from completion of the well or the date of
61 first sale from such well, provided that the average monthly sales
62 price of such gas does not exceed Three Dollars and Fifty Cents

63 (\$3.50) per one thousand (1,000) cubic feet. The exemption for
64 natural gas produced from discovery wells as described in this
65 paragraph (a) shall be repealed from and after July 1, 2003,
66 provided that any such production for which a permit was granted
67 by the board before July 1, 2003, shall be exempt for an entire
68 period of five (5) years, notwithstanding that the repeal of this
69 provision has become effective. Natural gas produced from
70 development wells or replacement wells drilled in connection with
71 discovery wells for which drilling commenced on or after January
72 1, 1994, shall be assessed at a rate of three percent (3%) of the
73 value thereof at the point of production for a period of three (3)
74 years. The reduced rate of assessment of natural gas produced
75 from development wells or replacement wells as described in this
76 paragraph (a) shall be repealed from and after January 1, 2003,
77 provided that any such production for which drilling commenced
78 before January 1, 2003, shall be assessed at the reduced rate for
79 an entire period of three (3) years, notwithstanding that the
80 repeal of this provision has become effective.

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

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

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

123 (b) Gas produced from a development well for which
124 drilling commenced on or after July 1, 1999, and for which
125 three-dimensional seismic was utilized in connection with the
126 drilling of such well, shall be assessed at a rate of three
127 percent (3%) of the value of the gas at the point of production
128 for a period of five (5) years, provided that the average monthly

129 sales price of such gas does not exceed Two Dollars and Fifty
130 Cents (\$2.50) per one thousand (1,000) cubic feet. The reduced
131 rate of assessment of gas produced from a development well as
132 described in this paragraph (b) and for which three-dimensional
133 seismic was utilized shall be repealed from and after July 1,
134 2003, provided that any such production for which a permit was
135 granted by the board before July 1, 2003, shall be assessed at the
136 reduced rate for an entire period of five (5) years,
137 notwithstanding that the repeal of this provision has become
138 effective.

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

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

161 for an entire period of three (3) years, notwithstanding that the
162 repeal of this provision has become effective.

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

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