By: Representative Cockerham To: Energy

HOUSE BILL NO. 1350

AN ACT TO AMEND SECTIONS 27-25-503 AND 27-25-703, MISSISSIPPI CODE OF 1972, TO DELETE THE REPEALERS ON THOSE PROVISIONS THAT ESTABLISH A REDUCED RATE FOR THE LEVY AND ASSESSMENT OF SEVERANCE TAXES ON THE INITIAL OIL AND NATURAL GAS PRODUCED FROM CERTAIN HORIZONTALLY DRILLED WELLS AND HORIZONTALLY DRILLED RECOMPLETION WELLS; AND FOR RELATED PURPOSES.

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

SECTION 1. Section 27-25-503, Mississippi Code of 1972, is amended as follows:

27-25-503. (1) (a) Except as otherwise provided in this section, there is levied, to be collected as provided in this article, annual privilege taxes upon every person engaging or continuing within this state in the business of producing, or severing oil from the soil or water for sale, transport, storage, profit or for commercial use. The amount of the tax shall be measured by the value of the oil produced, and shall be levied and assessed at the rate of six percent (6%) of the value of the oil at the point of production.

(b) The tax shall be levied and assessed at the rate of three percent (3%) of the value of the oil at the point of production on oil produced by an enhanced oil recovery method in which carbon dioxide is used; provided, that such carbon dioxide is transported by pipeline to the oil well site and on oil produced by any other enhanced oil recovery method approved and permitted by the State Oil and Gas Board on or after April 1, 1994, pursuant to Section 53-3-101 et seq.

(c) (i) The tax shall be levied and assessed at the rate of one and three-tenths percent (1.3%) of the value of the oil at the point of production on oil produced from a horizontally drilled well or from any horizontally drilled recompletion well from which production commences from and after July 1, 2013, for a period of thirty (30) months beginning on the date of first sale of production or until payout of the well cost is achieved, whichever first occurs. Thereafter, the tax shall be levied and assessed as provided for in paragraph (a) of this subsection.

(ii) Payout of a horizontally drilled well or horizontally drilled recompletion well shall be deemed to have occurred the first day of the next month after gross revenues, less royalties and severance taxes, equal to the cost to drill and complete the well.

(iii) Each operator must apply by letter to the State Oil and Gas Board for the reduced rate provided in this paragraph (c), and shall provide the board with the status of payout on a semiannual basis of any horizontally drilled well or horizontally drilled recompletion well by signed affidavit executed by a company representative.

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(2) The tax is levied upon the entire production in this state regardless of the place of sale or to whom sold, or by whom used, or the fact that the delivery may be made to points outside the state, and the tax shall accrue at the time the oil is severed from the soil, or water, and in its natural, unrefined or unmanufactured state.

(3) (a) Oil produced from a discovery well for which drilling or re-entry commenced on or after April 1, 1994, but before July 1, 1999, shall be exempt from the taxes levied under this section for a period of five (5) years beginning on the date of first sale of production from such well, provided that the average monthly sales price of such oil does not exceed Twenty-five Dollars ($25.00) per barrel. The exemption for oil produced from a discovery well as described in this paragraph (a) shall be repealed from and after July 1, 2003, provided that any such production for which a permit was granted by the board before July 1, 2003, shall be exempt for an entire period of five (5) years, notwithstanding that the repeal of this provision has become effective. Oil produced from development wells or replacement wells drilled in connection with discovery wells for which drilling commenced on or after January 1, 1994, but before July 1, 1999, shall be assessed at the rate of three percent (3%)

of the value of the oil at the point of production for a period of three (3) years. The reduced rate of assessment of oil produced from development wells or replacement wells as described in this paragraph (a) shall be repealed from and after January 1, 2003, provided that any such production for which drilling commenced before January 1, 2003, shall be assessed at the reduced rate for an entire period of three (3) years, notwithstanding that the repeal of this provision has become effective.

(b) Oil produced from a discovery well for which drilling or re-entry commenced on or after July 1, 1999, shall be assessed at the rate of three percent (3%) of the value of the oil at the point of production for a period of five (5) years beginning on the date of first sale of production from such well, provided that the average monthly sales price of such oil does not exceed Twenty Dollars ($20.00) per barrel. The reduced rate of assessment of oil produced from a discovery well as described in this paragraph (b) shall be repealed from and after July 1, 2003, provided that any such production for which a permit was granted by the board before July 1, 2003, shall be assessed at the reduced rate for an entire period of five (5) years, notwithstanding that the repeal of this provision has become effective. Oil produced from development wells or replacement wells drilled in connection with discovery wells for which drilling commenced on or after July 1, 1999, shall be assessed at the rate of three percent (3%) of the value of the oil at the point of production for a period of three (3) years. The reduced rate of assessment of oil produced from development wells or replacement wells as described in this paragraph (b) shall be repealed from and after January 1, 2003, provided that any such production for which drilling commenced before July 1, 2003, shall be assessed at the reduced rate for an entire period of three (3) years, notwithstanding that the repeal of this provision has become effective.

(4) (a) Oil produced from a development well for which drilling commenced on or after April 1, 1994, but before July 1, 1999, and for which three-dimensional seismic was utilized in connection with the drilling of such well shall be assessed at the rate of three percent (3%) of the value of the oil at the point of production for a period of five (5) years, provided that the average monthly sales price of such oil does not exceed Twenty-five Dollars ($25.00) per barrel. The reduced rate of assessment of oil produced from a development well as described in this paragraph (a) and for which three-dimensional seismic was utilized shall be repealed from and after July 1, 2003, provided that any such production for which a permit was granted by the board before July 1, 2003, shall be assessed at the reduced rate for an entire period of five (5) years, notwithstanding that the repeal of this provision has become effective.

(b) Oil produced from a development well for which drilling commenced on or after July 1, 1999, and for which three-dimensional seismic was utilized in connection with the drilling of such well shall be assessed at the rate of three percent (3%) of the value of the oil at the point of production for a period of five (5) years, provided that the average monthly sales price of such oil does not exceed Twenty Dollars ($20.00) per barrel. The reduced rate of assessment of oil produced from a development well as described in this paragraph (b) and for which three-dimensional seismic was utilized shall be repealed from and after July 1, 2003, provided that any such production for which a permit was granted by the board before July 1, 2003, shall be assessed at the reduced rate for an entire period of five (5) years, notwithstanding that the repeal of this provision has become effective.

(5) (a) Oil produced before July 1, 1999, from a two-year inactive well as defined in Section 27-25-501 shall be exempt from the taxes levied under this section for a period of three (3) years beginning on the date of first sale of production from such well, provided that the average monthly sales price of such oil does not exceed Twenty-five Dollars ($25.00) per barrel. The exemption for oil produced from an inactive well shall be repealed from and after July 1, 2003, provided that any such production which began before July 1, 2003, shall be exempt for an entire period of three (3) years, notwithstanding that the repeal of this provision has become effective.

(b) Oil produced on or after July 1, 1999, from a two-year inactive well as defined in Section 27-25-501 shall be exempt from the taxes levied under this section for a period of three (3) years beginning on the date of first sale of production from such well, provided that the average monthly sales price of such oil does not exceed Twenty Dollars ($20.00) per barrel. The exemption for oil produced from an inactive well shall be repealed from and after July 1, 2003, provided that any such production which began before July 1, 2003, shall be exempt for an entire period of three (3) years, notwithstanding that the repeal of this provision has become effective.

(6) [Repealed]

(7) The State Oil and Gas Board shall have the exclusive authority to determine the qualification of wells defined in paragraphs (n) through (t) of Section 27-25-501.

SECTION 2. Section 27-25-703, Mississippi Code of 1972, is amended as follows:

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

(b) (i) The tax shall be levied and assessed at the rate of one and three-tenths percent (1.3%) of the value of the gas at the point of production on gas produced from a horizontally drilled well or from any horizontally drilled recompletion well from which production commences from and after July 1, 2013, for a period of thirty (30) months beginning on the date of first sale of production or until payout of the well cost is achieved, whichever first occurs. Thereafter, the tax shall be levied and assessed as provided for in paragraph (a) of this subsection.

(ii) Payout of a horizontally drilled well or horizontally drilled recompletion well shall be deemed to have occurred the first day of the next month after gross revenues, less royalties and severance taxes, equal to the cost to drill and complete the well.

(iii) Each operator must apply by letter to the State Oil and Gas Board for the reduced rate provided in this paragraph (b), and shall provide the board with the status of payout on a semiannual basis of any horizontally drilled well or horizontally drilled recompletion well by signed affidavit executed by a company representative.

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(2) The tax is levied upon the entire production in this state, regardless of the place of sale or to whom sold or by whom used, or the fact that the delivery may be made to points outside the state, but not levied upon that gas, lawfully injected into

the earth for cycling, repressuring, lifting or enhancing the recovery of oil, nor upon gas lawfully vented or flared in connection with the production of oil, nor upon gas condensed into liquids on which the oil severance tax of six percent (6%) is paid; however, if any gas so injected into the earth is sold for such purposes, then the gas so sold shall not be excluded in computing the tax. The tax shall accrue at the time the gas is produced or severed from the soil or water, and in its natural, unrefined or unmanufactured state.

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

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

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

(5) (a) Natural gas produced from discovery wells for which drilling or re-entry commenced on or after April 1, 1994, but before July 1, 1999, shall be exempt from the tax levied under this section for a period of five (5) years beginning on the earlier of one (1) year from completion of the well or the date of first sale from such well, provided that the average monthly sales price of such gas does not exceed Three Dollars and Fifty Cents ($3.50) per one thousand (1,000) cubic feet. The exemption for natural gas produced from discovery wells as described in this paragraph (a) shall be repealed from and after July 1, 2003, provided that any such production for which a permit was granted by the board before July 1, 2003, shall be exempt for an entire period of five (5) years, notwithstanding that the repeal of this provision has become effective. Natural gas produced from development wells or replacement wells drilled in connection with discovery wells for which drilling commenced on or after January 1, 1994, shall be assessed at a rate of three percent (3%) of the value thereof at the point of production for a period of three (3) years. The reduced rate of assessment of natural gas produced from development wells or replacement wells as described in this paragraph (a) shall be repealed from and after January 1, 2003, provided that any such production for which drilling commenced before January 1, 2003, shall be assessed at the reduced rate for

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

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

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

(b) Gas produced from a development well for which drilling commenced on or after July 1, 1999, and for which three-dimensional seismic was utilized in connection with the drilling of such well, shall be assessed at a rate of three percent (3%) of the value of the gas at the point of production for a period of five (5) years, provided that the average monthly sales price of such gas does not exceed Two Dollars and Fifty Cents ($2.50) per one thousand (1,000) cubic feet. The reduced rate of assessment of gas produced from a development well as described in this paragraph (b) and for which three-dimensional seismic was utilized shall be repealed from and after July 1, 2003, provided that any such production for which a permit was granted by the board before July 1, 2003, shall be assessed at the reduced rate for an entire period of five (5) years, notwithstanding that the repeal of this provision has become effective.

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

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

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

SECTION 3. This act shall take effect and be in force from and after its passage.

ST: Oil and gas severance taxes; delete repealers on lower rate for production from horizontally drilled wells.