

By: Representative Cockerham

To: Energy

HOUSE BILL NO. 1350

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

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

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

10 27-25-503. (1) (a) Except as otherwise provided in this  
11 section, there is levied, to be collected as provided in this  
12 article, annual privilege taxes upon every person engaging or  
13 continuing within this state in the business of producing, or  
14 severing oil from the soil or water for sale, transport, storage,  
15 profit or for commercial use. The amount of the tax shall be  
16 measured by the value of the oil produced, and shall be levied and  
17 assessed at the rate of six percent (6%) of the value of the oil  
18 at the point of production.

19 (b) The tax shall be levied and assessed at the rate of  
20 three percent (3%) of the value of the oil at the point of



21 production on oil produced by an enhanced oil recovery method in  
22 which carbon dioxide is used; provided, that such carbon dioxide  
23 is transported by pipeline to the oil well site and on oil  
24 produced by any other enhanced oil recovery method approved and  
25 permitted by the State Oil and Gas Board on or after April 1,  
26 1994, pursuant to Section 53-3-101 et seq.

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

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

41 (iii) Each operator must apply by letter to the  
42 State Oil and Gas Board for the reduced rate provided in this  
43 paragraph (c), and shall provide the board with the status of  
44 payout on a semiannual basis of any horizontally drilled well or



45 horizontally drilled recompletion well by signed affidavit  
46 executed by a company representative.

47 \* \* \*

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

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



70 of the value of the oil at the point of production for a period of  
71 three (3) years. The reduced rate of assessment of oil 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) Oil produced from a discovery well for which  
79 drilling or re-entry commenced on or after July 1, 1999, shall be  
80 assessed at the rate of three percent (3%) of the value of the oil  
81 at the point of production for a period of five (5) years  
82 beginning on the date of first sale of production from such well,  
83 provided that the average monthly sales price of such oil does not  
84 exceed Twenty Dollars (\$20.00) per barrel. The reduced rate of  
85 assessment of oil produced from a discovery well as described in  
86 this paragraph (b) shall be repealed from and after July 1, 2003,  
87 provided that any such production for which a permit was granted  
88 by the board before July 1, 2003, shall be assessed at the reduced  
89 rate for an entire period of five (5) years, notwithstanding that  
90 the repeal of this provision has become effective. Oil produced  
91 from development wells or replacement wells drilled in connection  
92 with discovery wells for which drilling commenced on or after July  
93 1, 1999, shall be assessed at the rate of three percent (3%) of  
94 the value of the oil at the point of production for a period of



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

102 (4) (a) Oil produced from a development well for which  
103 drilling commenced on or after April 1, 1994, but before July 1,  
104 1999, and for which three-dimensional seismic was utilized in  
105 connection with the drilling of such well shall be assessed at the  
106 rate of three percent (3%) of the value of the oil at the point of  
107 production for a period of five (5) years, provided that the  
108 average monthly sales price of such oil does not exceed  
109 Twenty-five Dollars (\$25.00) per barrel. The reduced rate of  
110 assessment of oil produced from a development well as described in  
111 this paragraph (a) and for which three-dimensional seismic was  
112 utilized shall be repealed from and after July 1, 2003, provided  
113 that any such production for which a permit was granted by the  
114 board before July 1, 2003, shall be assessed at the reduced rate  
115 for an entire period of five (5) years, notwithstanding that the  
116 repeal of this provision has become effective.

117 (b) Oil produced from a development well for which  
118 drilling commenced on or after July 1, 1999, and for which  
119 three-dimensional seismic was utilized in connection with the



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

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

143 (b) Oil produced on or after July 1, 1999, from a  
144 two-year inactive well as defined in Section 27-25-501 shall be



145 exempt from the taxes levied under this section for a period of  
146 three (3) years beginning on the date of first sale of production  
147 from such well, provided that the average monthly sales price of  
148 such oil does not exceed Twenty Dollars (\$20.00) per barrel. The  
149 exemption for oil produced from an inactive well shall be repealed  
150 from and after July 1, 2003, provided that any such production  
151 which began before July 1, 2003, shall be exempt for an entire  
152 period of three (3) years, notwithstanding that the repeal of this  
153 provision has become effective.

154 (6) [Repealed]

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

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

160 27-25-703. (1) (a) Except as otherwise provided in this  
161 section, there is hereby levied, to be collected as provided in  
162 this article, annual privilege taxes upon every person engaging or  
163 continuing within this state in the business of producing, or  
164 severing gas from below the soil or water for sale, transport,  
165 storage, profit or for commercial use. The amount of the tax  
166 shall be measured by the value of the gas produced and shall be  
167 levied and assessed at a rate of six percent (6%) of the value of  
168 the gas at the point of production, except as otherwise provided  
169 in subsection (4) of this section.



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

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

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

190 \* \* \*

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





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

204 (3) Natural gas and condensate produced from any wells for  
205 which drilling is commenced after March 15, 1987, and before July  
206 1, 1990, shall be exempt from the tax levied under this section  
207 for a period of two (2) years beginning on the date of first sale  
208 of production from such wells.

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

215 (b) Any well which begins commercial production of  
216 occluded natural gas from coal seams on or after July 1, 2004, and  
217 before July 1, 2007, shall be taxed at the rate of three percent  
218 (3%) of the gross value of the occluded natural gas from coal  
219 seams at the point of production for a period of five (5) years



220 beginning on the date of the first sale of production from such  
221 well.

222 (5) (a) Natural gas produced from discovery wells for which  
223 drilling or re-entry commenced on or after April 1, 1994, but  
224 before July 1, 1999, shall be exempt from the tax levied under  
225 this section for a period of five (5) years beginning on the  
226 earlier of one (1) year from completion of the well or the date of  
227 first sale from such well, provided that the average monthly sales  
228 price of such gas does not exceed Three Dollars and Fifty Cents  
229 (\$3.50) per one thousand (1,000) cubic feet. The exemption for  
230 natural gas produced from discovery wells as described in this  
231 paragraph (a) shall be repealed from and after July 1, 2003,  
232 provided that any such production for which a permit was granted  
233 by the board before July 1, 2003, shall be exempt for an entire  
234 period of five (5) years, notwithstanding that the repeal of this  
235 provision has become effective. Natural gas produced from  
236 development wells or replacement wells drilled in connection with  
237 discovery wells for which drilling commenced on or after January  
238 1, 1994, shall be assessed at a rate of three percent (3%) of the  
239 value thereof at the point of production for a period of three (3)  
240 years. The reduced rate of assessment of natural gas produced  
241 from development wells or replacement wells as described in this  
242 paragraph (a) shall be repealed from and after January 1, 2003,  
243 provided that any such production for which drilling commenced  
244 before January 1, 2003, shall be assessed at the reduced rate for



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

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



270 before January 1, 2003, shall be assessed at the reduced rate for  
271 an entire period of three (3) years, notwithstanding that the  
272 repeal of this provision has become effective.

273           (6) (a) Gas produced from a development well for which  
274 drilling commenced on or after April 1, 1994, but before July 1,  
275 1999, and for which three-dimensional seismic was utilized in  
276 connection with the drilling of such well, shall be assessed at a  
277 rate of three percent (3%) of the value of the gas at the point of  
278 production for a period of five (5) years, provided that the  
279 average monthly sales price of such gas does not exceed Three  
280 Dollars and Fifty Cents (\$3.50) per one thousand (1,000) cubic  
281 feet. The reduced rate of assessment of gas produced from a  
282 development well as described in this subsection and for which  
283 three-dimensional seismic was utilized shall be repealed from and  
284 after July 1, 2003, provided that any such production for which a  
285 permit was granted by the board before July 1, 2003, shall be  
286 assessed at the reduced rate for an entire period of five (5)  
287 years, notwithstanding that the repeal of this provision has  
288 become effective.

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



295 sales price of such gas does not exceed Two Dollars and Fifty  
296 Cents (\$2.50) per one thousand (1,000) cubic feet. The reduced  
297 rate of assessment of gas produced from a development well as  
298 described in this paragraph (b) and for which three-dimensional  
299 seismic was utilized shall be repealed from and after July 1,  
300 2003, provided that any such production for which a permit was  
301 granted by the board before July 1, 2003, shall be assessed at the  
302 reduced rate for an entire period of five (5) years,  
303 notwithstanding that the repeal of this provision has become  
304 effective.

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

317 (b) Natural gas produced on or after July 1, 1999, from  
318 a two-year inactive well as defined in Section 27-25-701 shall be  
319 exempt from the taxes levied under this section for a period of



320 three (3) years beginning on the date of first sale of production  
321 from such well, provided that the average monthly sales price of  
322 such gas does not exceed Two Dollars and Fifty Cents (\$2.50) per  
323 one thousand (1,000) cubic feet. The exemption for natural gas  
324 produced from an inactive well as described in this paragraph (b)  
325 shall be repealed from and after July 1, 2003, provided that any  
326 such production which began before July 1, 2003, shall be exempt  
327 for an entire period of three (3) years, notwithstanding that the  
328 repeal of this provision has become effective.

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

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

