

By: Representative Cockerham

To: Energy

HOUSE BILL NO. 1350
(As Sent to Governor)

1 AN ACT TO AMEND SECTIONS 27-25-503 AND 27-25-703, MISSISSIPPI
2 CODE OF 1972, TO EXTEND 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 (iv) This paragraph (c) shall be repealed from and
48 after July 1, * * * 2023; however, any horizontally drilled well
49 or horizontally drilled recompletion well from which production
50 commences before July 1, * * * 2023, shall be taxed as provided
51 for in this paragraph (c) notwithstanding that the repeal of this
52 paragraph (c) has become effective.

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

59 (3) (a) Oil produced from a discovery well for which
60 drilling or re-entry commenced on or after April 1, 1994, but
61 before July 1, 1999, shall be exempt from the taxes levied under
62 this section for a period of five (5) years beginning on the date
63 of first sale of production from such well, provided that the
64 average monthly sales price of such oil does not exceed
65 Twenty-five Dollars (\$25.00) per barrel. The exemption for oil
66 produced from a discovery well as described in this paragraph (a)
67 shall be repealed from and after July 1, 2003, provided that any
68 such production for which a permit was granted by the board before
69 July 1, 2003, shall be exempt for an entire period of five (5)



70 years, notwithstanding that the repeal of this provision has
71 become effective. Oil produced from development wells or
72 replacement wells drilled in connection with discovery wells for
73 which drilling commenced on or after January 1, 1994, but before
74 July 1, 1999, shall be assessed at the rate of three percent (3%)
75 of the value of the oil at the point of production for a period of
76 three (3) years. The reduced rate of assessment of oil produced
77 from development wells or replacement wells as described in this
78 paragraph (a) shall be repealed from and after January 1, 2003,
79 provided that any such production for which drilling commenced
80 before January 1, 2003, shall be assessed at the reduced rate for
81 an entire period of three (3) years, notwithstanding that the
82 repeal of this provision has become effective.

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



95 the repeal of this provision has become effective. Oil produced
96 from development wells or replacement wells drilled in connection
97 with discovery wells for which drilling commenced on or after July
98 1, 1999, shall be assessed at the rate of three percent (3%) of
99 the value of the oil at the point of production for a period of
100 three (3) years. The reduced rate of assessment of oil produced
101 from 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 July 1, 2003, shall be assessed at the reduced rate for an
105 entire period of three (3) years, notwithstanding that the repeal
106 of this provision has become effective.

107 (4) (a) Oil 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 the
111 rate of three percent (3%) of the value of the oil at the point of
112 production for a period of five (5) years, provided that the
113 average monthly sales price of such oil does not exceed
114 Twenty-five Dollars (\$25.00) per barrel. The reduced rate of
115 assessment of oil produced from a development well as described in
116 this paragraph (a) and for which three-dimensional seismic was
117 utilized shall be repealed from and after July 1, 2003, provided
118 that any such production for which a permit was granted by the
119 board before July 1, 2003, shall be assessed at the reduced rate



120 for an entire period of five (5) years, notwithstanding that the
121 repeal of this provision has become effective.

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

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



145 which began before July 1, 2003, shall be exempt for an entire
146 period of three (3) years, notwithstanding that the repeal of this
147 provision has become effective.

148 (b) Oil produced on or after July 1, 1999, from a
149 two-year inactive well as defined in Section 27-25-501 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 oil does not exceed Twenty Dollars (\$20.00) per barrel. The
154 exemption for oil produced from an inactive well shall be repealed
155 from and after July 1, 2003, provided that any such production
156 which began before July 1, 2003, shall be exempt for an entire
157 period of three (3) years, notwithstanding that the repeal of this
158 provision has become effective.

159 (6) [Repealed]

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

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

165 27-25-703. (1) (a) Except as otherwise provided in this
166 section, there is hereby levied, to be collected as provided in
167 this article, annual privilege taxes upon every person engaging or
168 continuing within this state in the business of producing, or
169 severing gas from below the soil or water for sale, transport,



170 storage, profit or for commercial use. The amount of the tax
171 shall be measured by the value of the gas produced and shall be
172 levied and assessed at a rate of six percent (6%) of the value of
173 the gas at the point of production, except as otherwise provided
174 in subsection (4) of this section.

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

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

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



195 (iv) This paragraph (b) shall be repealed from and
196 after July 1, * * * 2023; however, any horizontally drilled well
197 or horizontally drilled recompletion well from which production
198 commences before July 1, * * * 2023, shall be taxed as provided
199 for in this paragraph (b) notwithstanding that the repeal of this
200 paragraph (b) has become effective.

201 (2) The tax is levied upon the entire production in this
202 state, regardless of the place of sale or to whom sold or by whom
203 used, or the fact that the delivery may be made to points outside
204 the state, but not levied upon that gas, lawfully injected into
205 the earth for cycling, repressuring, lifting or enhancing the
206 recovery of oil, nor upon gas lawfully vented or flared in
207 connection with the production of oil, nor upon gas condensed into
208 liquids on which the oil severance tax of six percent (6%) is
209 paid; however, if any gas so injected into the earth is sold for
210 such purposes, then the gas so sold shall not be excluded in
211 computing the tax. The tax shall accrue at the time the gas is
212 produced or severed from the soil or water, and in its natural,
213 unrefined or unmanufactured state.

214 (3) Natural gas and condensate produced from any wells for
215 which drilling is commenced after March 15, 1987, and before July
216 1, 1990, shall be exempt from the tax levied under this section
217 for a period of two (2) years beginning on the date of first sale
218 of production from such wells.



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

225 (b) Any well which begins commercial production of
226 occluded natural gas from coal seams on or after July 1, 2004, and
227 before July 1, 2007, shall be taxed at the rate of three percent
228 (3%) of the gross value of the occluded natural gas from coal
229 seams at the point of production for a period of five (5) years
230 beginning on the date of the first sale of production from such
231 well.

232 (5) (a) Natural gas produced from discovery wells for which
233 drilling or re-entry commenced on or after April 1, 1994, but
234 before July 1, 1999, shall be exempt from the tax levied under
235 this section for a period of five (5) years beginning on the
236 earlier of one (1) year from completion of the well or the date of
237 first sale from such well, provided that the average monthly sales
238 price of such gas does not exceed Three Dollars and Fifty Cents
239 (\$3.50) per one thousand (1,000) cubic feet. The exemption for
240 natural gas produced from discovery wells as described in this
241 paragraph (a) shall be repealed from and after July 1, 2003,
242 provided that any such production for which a permit was granted
243 by the board before July 1, 2003, shall be exempt for an entire



244 period of five (5) years, notwithstanding that the repeal of this
245 provision has become effective. Natural gas produced from
246 development wells or replacement wells drilled in connection with
247 discovery wells for which drilling commenced on or after January
248 1, 1994, shall be assessed at a rate of three percent (3%) of the
249 value thereof at the point of production for a period of three (3)
250 years. The reduced rate of assessment of natural gas produced
251 from development wells or replacement wells as described in this
252 paragraph (a) shall be repealed from and after January 1, 2003,
253 provided that any such production for which drilling commenced
254 before January 1, 2003, shall be assessed at the reduced rate for
255 an entire period of three (3) years, notwithstanding that the
256 repeal of this provision has become effective.

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



269 be assessed at the reduced rate for an entire period of five (5)
270 years, notwithstanding that the repeal of this provision has
271 become effective. Natural gas produced from development wells or
272 replacement wells drilled in connection with discovery wells for
273 which drilling commenced on or after July 1, 1999, shall be
274 assessed at a rate of three percent (3%) of the value thereof at
275 the point of production for a period of three (3) years. The
276 reduced rate of assessment of natural gas produced from
277 development wells or replacement wells as described in this
278 paragraph (b) shall be repealed from and after January 1, 2003,
279 provided that any such production for which drilling commenced
280 before January 1, 2003, shall be assessed at the reduced rate for
281 an entire period of three (3) years, notwithstanding that the
282 repeal of this provision has become effective.

283 (6) (a) Gas produced from a development well for which
284 drilling commenced on or after April 1, 1994, but before July 1,
285 1999, and for which three-dimensional seismic was utilized in
286 connection with the drilling of such well, shall be assessed at a
287 rate of three percent (3%) of the value of the gas at the point of
288 production for a period of five (5) years, provided that the
289 average monthly sales price of such gas does not exceed Three
290 Dollars and Fifty Cents (\$3.50) per one thousand (1,000) cubic
291 feet. The reduced rate of assessment of gas produced from a
292 development well as described in this subsection and for which
293 three-dimensional seismic was utilized shall be repealed from and



294 after July 1, 2003, provided that any such production for which a
295 permit was granted by the board before July 1, 2003, shall be
296 assessed at the reduced rate for an entire period of five (5)
297 years, notwithstanding that the repeal of this provision has
298 become effective.

299 (b) Gas produced from a development well for which
300 drilling commenced on or after July 1, 1999, and for which
301 three-dimensional seismic was utilized in connection with the
302 drilling of such well, shall be assessed at a rate of three
303 percent (3%) of the value of the gas at the point of production
304 for a period of five (5) years, provided that the average monthly
305 sales price of such gas does not exceed Two Dollars and Fifty
306 Cents (\$2.50) per one thousand (1,000) cubic feet. The reduced
307 rate of assessment of gas produced from a development well as
308 described in this paragraph (b) and for which three-dimensional
309 seismic was utilized shall be repealed from and after July 1,
310 2003, provided that any such production for which a permit was
311 granted by the board before July 1, 2003, shall be assessed at the
312 reduced rate for an entire period of five (5) years,
313 notwithstanding that the repeal of this provision has become
314 effective.

315 (7) (a) Natural gas produced before July 1, 1999, from a
316 two-year inactive well as defined in Section 27-25-701 shall be
317 exempt from the taxes levied under this section for a period of
318 three (3) years beginning on the date of first sale of production



319 from such well, provided that the average monthly sales price of
320 such gas does not exceed Three Dollars and Fifty Cents (\$3.50) per
321 one thousand (1,000) cubic feet. The exemption for natural gas
322 produced from an inactive well as described in this subsection
323 shall be repealed from and after July 1, 2003, provided that any
324 such production which began before July 1, 2003, shall be exempt
325 for an entire period of three (3) years, notwithstanding that the
326 repeal of this provision has become effective.

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

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

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

