

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.